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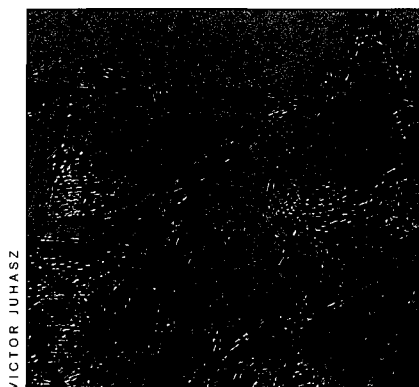
# Brookings

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R E V I E W



SANDY YOUNG



VICTOR JUHASZ



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# Managing a Globalizing World

## AN OVERVIEW

By Barry Bosworth and Philip H. Gordon



The massive street protests at last July's G-8 summit in Genoa, Italy—following similar demonstrations at other international gatherings in Göttingen, Prague, Washington, Davos, and Seattle—have focused the world's attention as never before on the phenomenon now known as globalization. The issues raised under the heading of globalization are controversial in part because the term has different meanings for different people. Most broadly, globalization is the expansion and intensification of linkages and flows—of people, goods, capital, ideas, and cultures—across national borders. To some this process implies the need for an element of global governance—a decline in the importance of national entities as they are replaced by global institutions. A more integrated global system has also increased awareness of a set of common problems—pollution, disease, and crime—that many have come to believe can only be addressed collectively. The result has been growing controversy about how to ensure a safer, more prosperous world to the benefit of all. In this issue of the *Brookings Review*, experts from inside and outside Brookings address the impact of globalization on a range of international issues.

In some respects, globalization is an old story. Transnational banks and trading enterprises have been important features of international commerce since the Middle Ages in Europe. By some measures, trade between nations was higher at the beginning of the 20th century than at the beginning of the 21st. The gold standard constituted a de facto common monetary system that linked national financial markets more closely than today's array of floating and semi-floating exchange rates. The movement of people across national borders also peaked in the 19th century, when travelers had no need for passports or visas. But global-

ization was set back in the first half of the 20th century, as two world wars and a severe world depression led to a breakup of the international monetary system and a series of national actions to curb trade. Much of the remainder of the century was devoted to restoring the trade and financial linkages that existed before 1914.

Though some analysts have used past examples of international integration to play down the significance of developments today, in fact global linkages at the opening of the 21st century far exceed those of earlier eras in degree, intensity, speed, volume, and geographic reach. Over the past decade globalization has been driven by technological advances, which have dramatically cut the costs of international shipping, transportation, travel, communication, and financial interaction, as well as of computing and information exchange. But globalization has also been driven by policies and ideas, as governments around the world, particularly since the 1980s, have increasingly come to believe that opening their borders to outside capital, competition, and ideas is good for their societies as a whole. One result has been an increase in openness in the already fairly integrated industrialized regions of North America, Europe, and East Asia. Another has been the incorporation of China, Russia, Eastern Europe, and Latin America into a more integrated international political and economic system.

In an economic sense, globalization is most evident in the expansion of international commerce. A recent book by Angus Madison estimates that the export share of world output has grown about fourfold since 1870. Growth has been particularly rapid in the past half century (figure 1). Today the total value of annual international exports is almost \$7 trillion. For the United States, total trade (exports and imports) has increased from 11 percent of GDP in 1929 to today's 25 percent, but all that growth has come about in the past quarter century.

Global capital markets have also grown rapidly, with private capital flows rising from less than 5 percent of world GDP in 1975 to about 20 percent today. And foreigners play a critical role in financing the U.S. economy. At the end of 2000, Americans, with a national income of \$8 trillion, had investments in

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the rest of the world worth about \$3.7 trillion, while foreign claims on the United States totaled \$7.4 trillion.

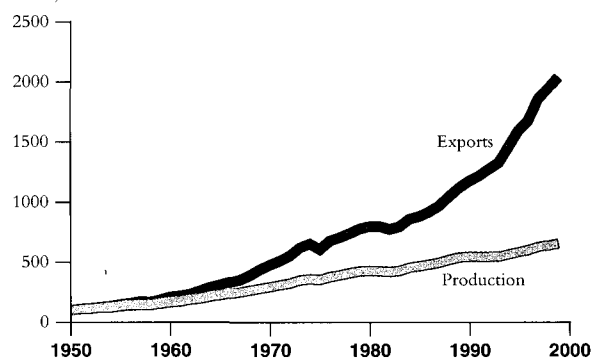
And while the share of the global population migrating across national borders has remained roughly stable over the past half century, its composition has changed: a growing proportion moves from very poor to rich countries. In the United States, the share of the population that is foreign-born has increased dramatically in the past 40 years, though it remains below that of the early 1900s (see figure 2).

Finally, the falling cost of travel, as well as technological innovations in communications, has greatly increased contact between people of disparate cultures. Today, some 250 million people worldwide have access to the Internet, putting them in touch with ideas and information from literally anywhere else in the world at any time. Global television and radio broadcasts and other media have also helped promote unprecedented contact among people of different nations. Those contacts have promoted extensive cultural interaction, offering people around the world the many benefits of access to different cultures, but have also stoked resentment in some quarters as people worry about apparent "threats" to their way of life, often equating "globalization" with "Americanization."

Why is globalization so controversial? Concerns vary. First, within any country, the liberalization of trade creates both winners and losers. Although economists can demonstrate that the gains to the winners will exceed the losses—the benefits of increased specialization and economies of scale—some losses can be substantial. Within U.S. manufacturing, for example, workers whose jobs are displaced through trade will ultimately suffer reductions in annual income that average about 16 percent when they find new jobs. Most countries make only minimal efforts to compensate the losers. Such domestic conflicts have long been evident in the United States in the textile, steel, and automobile industries, but their importance increases as the pace of globalization accelerates. More generally, a more open, competitive global economy can be

**Figure 1. World Trade and Production, 1950–99**

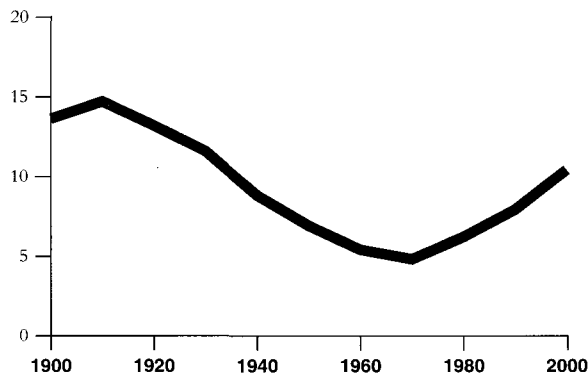
Index, 1950 = 100



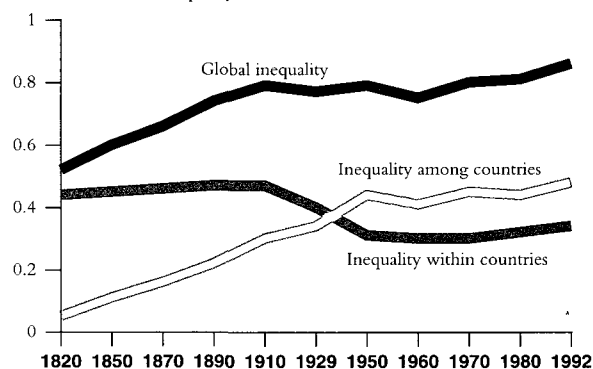
Source: WTO.

**Figure 2. Share of U.S. Population That Is Foreign-Born, 1900–2000**

Percent

Source: Department of Commerce Historical Statistics of the United States  
Colonial Times to 1970, US Statistical Abstract 2000.**Figure 3. Global Inequality of Individual Incomes, 1820–1992**

Theil coefficient of inequality

Source: François Bourguignon and Christian Morrisson, unpublished paper  
written for the World Bank, 2000. The "countries" here consist of 15 single  
countries with abundant data and large populations plus 18 other country  
groups. The 18 groups were aggregates of geographical neighbors having  
similar levels of GDP per capita.

expected to harm the welfare of low-skilled workers in the industrialized countries.

Second, a substantial portion of the globe's population has thus far failed to gain from globalization, and poverty remains a severe problem for many. More than a billion people,

roughly a quarter of the world's population, exist on less than \$1 a day; and more than half the world's people live on less than \$2 a day. Critics charge that the gains from globalization are too sharply skewed toward the already prosperous industrial countries. Most economic analysis suggests that poor countries need to be more, not less, integrated with the global economy if they are to have access to the capital, technology, and infrastructure required to raise productivity and living standards. But some analysts object that the industrial countries are erecting ever more barriers to new entrants in the form of restrictions on the use of new technologies, as well as labor and environmental standards higher than those followed by the industrial countries at similar stages of development.

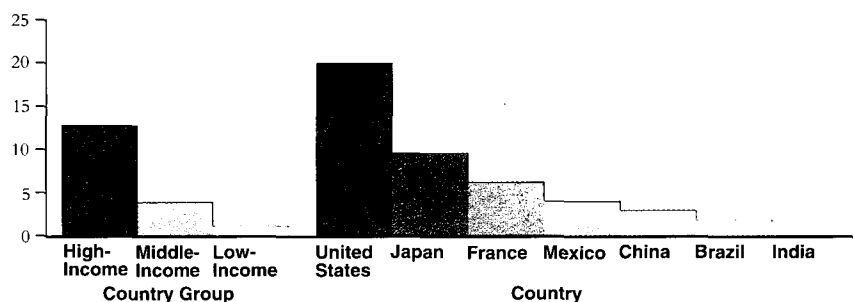
In the debate over the distribution of globalization's benefits it is important to distinguish between the change in the distribution of income within and among countries. Before World War I, incomes in countries now considered industrialized—Europe, the United States, Canada, Australia, and Japan—tended to converge because of expanding trade and the mass migration of people out of Europe. Since World War II, a similar convergence can be traced in large part to reconstruction of war-damaged economies. Several Asian economies also moved out of the ranks of severe poverty to achieve standards of living comparable to those of the industrialized economies of Europe.

The record is more disappointing when more countries are included (see figure 3). Over the span of a century or more, the income gap between the richest and poorest countries has widened. For the most recent decades, conclusions depend on specific methodologies and whether fast-growing economies, such as China, India, and Indonesia, are included. On balance, there has been little change in the aggregate, though some evidence suggests that significant involvement in the global trading system helps improve growth in the high performers.

Third, environmental concerns have emerged as a new source of conflict. As shown in figure 4, carbon emissions, believed to be a cause of global warming, are strongly tied to economic development. On a per capita basis Americans generate the most emissions—roughly seven times those of China. But the developing countries are helping to boost growth in emissions (figure 5). The United States has refused to join in cooperative efforts to reduce carbon emissions unless constraints are placed on the developing countries, and it has rejected a standard that equalizes emissions per capita.

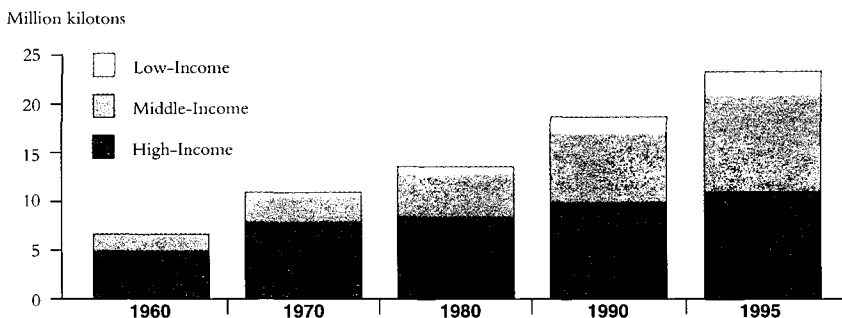
Other forms of pollution also rise with economic development, but as countries become wealthier they can afford to make the investments required to reduce pollution. Thus, some environmental problems will worsen with development, others will decline, and still others will initially worsen and then improve. Environmental quality becomes an important

Figure 4. CO<sub>2</sub> Emissions Per Capita, Annual Average, 1995–97  
Kilotons



Source: World Development Indicators 2001.

Figure 5. CO<sub>2</sub> Emissions Levels by Country Group, 1960–95  
Million kilotons



Source: World Development Indicators 2001.

goal only in societies that have escaped grinding poverty. The transfer of pollution-control technologies from the rich to the poor nations also helps the poor countries achieve lower pollution goals than did the rich countries at comparable stages of development. It is sometimes argued that competition among countries to attract multinational firms and jobs might lead to a competitive race to the bottom in terms of environmental standards. The available evidence, however, suggests the opposite, as the more open economies have been quicker to adopt the cleaner technologies and foreign-owned firms tend to pollute less than national firms.

Finally, globalization is controversial because although open borders increase flows of less expensive and better-quality goods, well-allocated capital investments, and new ideas and information, they may also invite narcotics, laundered money, terrorists, weapons of mass destruction, and diseases like tuberculosis and AIDS. These less welcome consequences pose huge challenges to an international community more interconnected—and therefore more vulnerable to developments taking place all around the world—than ever before.

Can globalization be harnessed so that all citizens and countries benefit and not just the lucky few? Is it a force for spreading democracy and individual freedom, or does it help authoritarian governments to maintain control? Are global regimes and institutions—financial, commercial, environmental, and political—the best ways to cope with the challenges posed by globalization, or should each country fend primarily for itself? There are no easy answers, but these are some of the critical questions that our contributors address. ■

By Ralph C. Bryant

# Cross-Border Financial Interdependence HELPFUL AND HAZARDOUS

**A**re the increasingly large and rapid movements of trillions of dollars across national borders enhancing the world's prosperity? Or are these flows an enormous pool of foot-loose money that provokes financial turbulence, disrupts national economies, and severely damages welfare? The average citizen is unsure how to answer such questions. Policymakers and financial specialists espouse contradictory, and sometimes extreme, views. Some hail the benefits. Others warn ominously of the dangers.

The awkward truth is that cross-border financial interdependence is both helpful and hazardous. Because ever more capital will flow across borders in

future decades, it is certain that the benefits and the risks will both grow. What is also certain is that collective governance of cross-border finance, now in its infancy, will need to be substantially strengthened. Toward that end, policymakers and citizens alike should reject extremist views and support pragmatic efforts to enhance international cooperation about financial standards and the prudential oversight of financial systems.

## **Financial Activity and Financial Turbulence**

The financial system of an individual nation can be likened to a reservoir that collects the savings generated in the economy. Savers place their funds in the reservoir. Investors draw funds out. Saving and investment decisions can be, and are, taken independently. The reservoir rises and falls as financial and economic conditions change.

Even in a well-functioning economy, particular investments turn out to be disappointments. Conditions change. Poor judgments are made. The

inevitable mistakes and accidents cause waves, even storms, in the reservoir. Storms can spread and become virulent because of herding behavior, contagion, and excessive volatility in asset prices. Financial activity not only reflects, but thus can even itself cause, financial turbulence that in turn severely damages economic welfare.

The inherent fragility of national financial systems can be powerfully exacerbated by the risks and uncertainties stemming from cross-border finance. When particular investments go sour in an economy open to the rest of the world, repercussions get transmitted abroad. Mistakes and accidents can be especially problematic when investments have been financed with direct shifts of savings from one national reservoir to another. Cross-border and cross-currency liabilities amplify the consequences of distressed financial conditions. National financial reservoirs can be simultaneously afflicted by volatile cross-border capital flows, disruptive fluctuations in exchange rates,

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and severe balance-of-payments crises. Episodes of stormy weather can even lead to an occasional hurricane-level crisis.

The potential for financial instability cannot be attributed primarily to cross-border finance. The causes are deeply rooted in the information asymmetries, the expectational and informational cascades, and the adverse-selection and moral-hazard problems that pervade all aspects of financial behavior, domestic as well as cross-border. Yet the cross-border features magnify the potential.

Notwithstanding its hazards, financial activity is fundamentally beneficial. Financial intermediation and financial markets are underpinnings without which modern economies could not prosper. Because financial activity permits individuals and enterprises to make saving and investment decisions independently, the aggregate flows of both, and hence the growth of economic activity, can be substantially greater and more efficient.

Such generalizations apply with great force to open economies with extensive cross-border trade and financial activity. When the financial reservoirs of different nations are highly interconnected, the aggregate decisions of any single nation's ultimate savers and ultimate investors need not be closely linked. Net transfers of saving from one nation to another permit saving and investment decisions to be independent for nations as a whole. Loosening the links between aggregate saving and aggregate investment for individual nations substantially enhances the potential for each nation's economic well-being.

Judgments about financial activity should exaggerate neither the hazards nor the benefits. What is required is a balanced view of both.

### **Collective Governance for Financial Systems**

Nations rightly try to prevent domestic financial instability—and to mitigate the consequences when it nonetheless arises—by maintaining a collective-governance infrastructure for prudential oversight of the financial system. The critical features of this infrastructure

include standards for accounting, auditing, and information disclosure; legal procedures for enforcing contracts and adjudicating disputes; prudential supervision and regulation of private financial institutions; an effective but limited potential for crisis management and crisis lending; and, not least, sound and predictable macroeconomic policies.

If a well-functioning collective-governance infrastructure is a precondition for a domestic financial system to operate smoothly, why is one not needed on a world scale? One's intuition wants to respond that the same logic does apply at the world level. And the *economic* aspects of the logic are, indeed, persuasive. If there could exist supranational analogues to the functions carried out within domestic financial systems by nations' central banks and supervisors of financial institutions, the global economy could evolve in a more stable manner.

If cabbages were horses, all could ride like kings. But cabbages are not horses. The requisite *political* preconditions do not exist for the logic to be fully applied on a world scale. Except for some rudiments and nascent efforts, collective-governance institutions that can effectively carry out the functions of a supranational financial infrastructure are not yet part of the evolving global financial system.

To be sure, efforts have intensified in the past several years. Genuine progress has been made. But much more remains to be done. Continuing to develop the nascent supranational infrastructures should be a top priority for intergovernmental cooperation in the next few decades.

The most difficult obstacles to international agreement about standards for financial systems are fundamental inconsistencies in national laws. The only way to resolve the dilemma in those cases is to alter national arrangements to conform to a single, internationally agreed arrangement. When national standards differ but are not in direct conflict, the preferred approach to designing world standards is to encourage agreed minimum standards and allow differences among nations above that minimum to persist.

Monitoring and enforcing world standards and oversight norms will soon become at least as important as sound design. As a practical matter, most monitoring and enforcement must be carried out within each nation by its own collective-governance infrastructure. Each national government must take political responsibility for explaining the importance of world standards to its citizens and must strengthen its own procedures for self-assessment. The world community can encourage implementation, but it cannot impose or enforce it.

Self-assessment alone, however, will be insufficient. To ensure rigor, to foster consistent application of world standards across national jurisdictions, and to enhance credibility, national self-assessments should be complemented by external verification and probably even by external assessments. Thus the world community should nurture a beginning, tentative process of overview assessments by international financial organizations. Those overviews should concentrate initially on a straightforward description of a nation's existing standards and practices and the degree to which they are consistent with the standards evolving at the world level. A strategy along these lines is in fact emerging, to be implemented jointly through a variety of international organizations and consultative groups.

### **Different Nations at Different Stages of Development**

Many developing nations lag behind industrial nations in the evolution of their financial systems and collective-governance infrastructures. Hence financial standards and prudential oversight often fall below evolving minimum world standards. The risks of general financial instability in those nations are accordingly also greater. Developing nations are more vulnerable because their economies are smaller and often more open. Herding behavior and contagion tend to be more virulent, causing greater difficulties.

Much of the saving imported from abroad into the financial systems of developing nations is skittish capital or can quickly become so. Portfolio

investors and creditors from the financial reservoirs in the industrial nations can be unforgiving about problems in developing nations and may withdraw on slight provocation, especially if they observe other investors heading for the exit.

The propensity of foreign investors to be skittish does not change the fact that an individual nation can gain greatly from cross-border finance by smoothing the path of its consumption over time. A prudent nation will try to hedge against the future through a net accumulation of income-earning assets abroad during good times. During difficult times it can then hope to be a net borrower from abroad, thereby preventing consumption levels from falling proportionately with temporarily diminished incomes. Unforgiving foreign investors in a developing nation, however, may complicate putting that policy into practice.

Nations at different stages of development also have differing capabilities for remedying the shortfalls in the prudential oversight of their financial systems. Administrative skills may be especially scarce in developing nations. Budgets may be particularly constrained. The world community would therefore be unwise to request an immediate across-the-board raising of national to world minimum standards. Today's advanced industrial nations took decades to improve their own standards, norms, and procedures. The diversity in capacities among nations is a primary reason for supporting international minimum standards rather than uniform harmonized standards for all nations.

A few jurisdictions in the world financial system attract financial activity by deliberately fostering regulatory arbitrage and supervisory laxity. At worst, some "renegade" jurisdictions abet financial crime and money laundering, assess little or no tax on capital themselves, and encourage tax evasion by citizens of other nations. The governments of responsible nations should take collective action to constrain this behavior. A mild but partially effective first step, taken in 2000, is to cooperate in "naming and shaming" offending jurisdictions.

Financial systems and their prudential oversight differ not just between developing and developed nations but also within the developed nations themselves. Pronounced differences, for example, between continental European and Anglo-Saxon norms for corporate governance lead to differences among banking systems. Japan, Europe, and North America also differ in their detailed norms, procedures, and institutions for prudential oversight.

Many commentators in the largest industrial nations, forgetting their own nations' past financial panics and inadequate prudential oversight, tend to look down their noses at the financial systems of emerging-market and developing nations. But as Japan's troubled financial system reminds us, the industrial nations too have deficiencies in financial standards and prudential oversight that need to be remedied. If the international community is to encourage an appropriate evolution of collective governance for the world financial system, the industrial nations should not downplay their own problems while self-righteously recommending that the developing nations pull up *their* financial socks.

### **Traffic Regulations for Cross-Border Capital Flows**

A sensible starting point when considering policy guidelines for cross-border capital flows is to think of an individual nation as a relatively unprotected island in a large ocean. Its economy and financial system are the harbors through which all shipping into and out of the island passes. The most its government can hope to do is to provide partial protection for its harbors by maintaining *financial breakwaters*.

A prudent and carefully circumscribed use of breakwater measures can be a sensible part of an overall national economic strategy. Most nations, not least those whose financial systems are at early or middle stages of evolution, would like simultaneously to pursue three goals: exchange-rate stability, autonomy for national monetary policy, and financial integration with the rest of the world. As economic textbooks declare, these three goals are an "impos-

sible trinity." The more a nation strives to attain any two of the three, the more it must surrender aspirations to simultaneously achieve the third. What the textbook catechism fails to point out, however, is that no nation need be purist in choosing among the three goals. Rather than striving for the whole loaf of financial autonomy and a whole loaf of freedom for cross-border financial transactions, for example, a nation could surrender some of both objectives, aiming at half a loaf of autonomy and half a loaf of financial integration. More generally, most nations will be better off aiming at a compromise combination of all three, though no one compromise is likely to be ideal for all nations in all circumstances.

The eclectic attitude about financial breakwaters is likewise appropriate for the choice of a nation's exchange-rate regime. Notwithstanding a vast literature in international finance seeking to identify "optimum" exchange-rate arrangements, the yearning for an ideal regime—*any* one single set of arrangements—is badly misguided. It is especially easy for a nation to get into financial trouble by pegging its exchange rate to another currency. But any conceivable exchange regime can be overwhelmed in stormy financial conditions. The manner and degree of exchange-rate variability are not, in themselves, the financial policy issues of overriding importance for a nation. A wise government will place greater priority on developing sound macroeconomic policies and ensuring high standards and competent prudential oversight for the nation's financial system.

A nation can easily make mistakes when maintaining financial breakwaters. Injudicious use can not only deny sizable benefits to itself but also harm other nations. The effectiveness of breakwaters tends to be eroded over time. Nevertheless, some types of breakwaters are viable and can provide modest protection. Two examples are a cross-border capital withholding tax and reserve requirements on the short-term liabilities to foreign depositors and investors of the domestic offices of financial institutions. In addition, pru-

dential restraints such as upper limits on the net open foreign-exchange positions of financial institutions should be a permanent part of a nation's financial supervision and regulation.

Guidelines for cross-border financial transactions sanctioned by the world community should likewise embody a nuanced and balanced approach. As a general principle, they should respect the diversity of nations' circumstances and allow national discretion and experimentation. Traffic regulations endorsing full liberalization of capital flows are neither desirable nor politically feasible. For the foreseeable future, guidelines must be "soft law."

Again as a general principle, the international community and the International Monetary Fund should give substantially higher priority to individual nations' overall financial standards and prudential-oversight policies than to the specifics of any financial breakwaters. International guidelines should discourage the use of breakwaters as a substitute for sound macroeconomic policies, for maintenance of a strong international investment position, or for competent supervision and regulation of the financial system generally. Financial breakwaters should rely where possible on market forces rather than on direct administrative controls and should be designed as much as possible to limit opportunities for regulatory capture or corruption. Nations will also typically be better advised to design breakwaters as transitional measures and to use them to try to moderate unwanted capital inflows rather than to try to stem unwanted capital outflows.

### A Middle-Way Vision

The beginning of wisdom in weighing the complex questions of cross-border finance is to appreciate the fact that the scales do not tilt unambiguously to the benefits side or the risks side. Polarized positions emphasizing only the benefits or only the risks are good for sound bites, but they do not stand up to careful scrutiny.

One polar position—the *untrammeled-markets view*—is that cross-border finance is so efficient and beneficial that it is a

mistake to interpose any measures of collective governance. Advocates of this view, cousins to Dr. Pangloss, argue that unfettered capital markets will be all for the best in this nearly best of all possible worlds.

The opposite polar position—the *sweeping institutionalist reform view*—is that market failures are pervasive internationally as well as domestically. Advocates often recommend greatly enhancing the authority of international institutions. Some also slide into recommendations that individual nations should erect very high breakwaters, if not a Great Wall, around their financial systems.

As public debate about cross-border capital flows and financial interdependence intensifies, policymakers and the informed public should be deeply suspicious of the two polar views. Neither is based on compelling analysis. Both are politically unrealistic. Market failures and financial turbulence put great pressure on governments to "do something." The untrammeled-markets advice to "Don't do something! Just stand there!" almost invariably—and usually appropriately—buckles under crisis-generated political pressure. The sweeping institutionalist reform view badly underestimates the relevant political constraints. The next decade or two are unlikely to see a radical increase in the authority of existing international institutions or the creation of new ones. The cosmopolitan dream of creating global federalist institutions to exercise collective governance at the world level—the formal beginnings of a world government—stands no chance of fulfillment for many decades.

Defenders of a middle way can draw comfort from knowing that they are on familiar ground, participating in

**The beginning of wisdom in weighing the complex questions of cross-border finance is to appreciate the fact that the scales do not tilt unambiguously to the benefits side or the risks side.**

a centuries-old debate. Thoughtful analysts have always recognized a tension between market efficiency and market failure. The decentralized decisionmaking embodied in market supplies and demands can accomplish allocative feats of marvelous complexity. But markets can also malfunction. Decentralized noncooperative decisionmaking in some circumstances produces outcomes decidedly inferior to those attainable through collective action. Institutions of collective governance can supply, or induce private economic agents to supply, collective goods that would not be provided at all, or would be provided inadequately, in the absence of the collective decisionmaking. Yet institutions of collective governance can malfunction too. Soundly managed nations, and sensible evolutions of the

world polity and economy, thus require safeguards against both market failures and government failures.

Today's complex world of intermediate interdependence requires enlightened middle-way policies. It is quixotic to make recommendations that assume much more political integration and supranational decisionmaking than is now feasible. It is an even bigger disservice to argue that markets will sort things out efficiently if governments will just stand aside and let the markets "get the prices right."

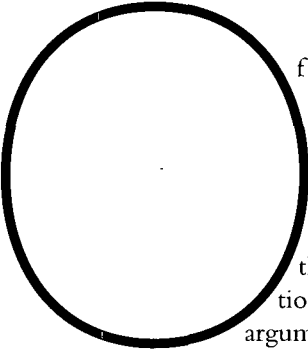
The eclectic's position is unsatisfyingly bland. But there continues to be deep wisdom in the aphorism that the middle of the road is preferable to the ditch on either side. Phoebus's advice to the impetuous Phaeton—*medio tutissimus ibis* (you will go most safely by the middle way)—is not an infallible guide to sound policy. But it will very often save those holding the reins from dangerous errors. ■



# LABOR STANDARDS AND GLOBAL TRADE

By Gary Burtless

# Workers' Rights

All the debates surrounding globalization, one of the most contentious involves trade and workers' rights.

Proponents of workers' rights argue that trading nations should be held to strict labor standards—and they offer two quite different justifications for their view. The first is a moral argument whose premise is that many labor standards, such as freedom of association and the prohibition of forced labor, protect basic human rights. Foreign nations that wish to be granted free access to the world's biggest and richest markets should be required to observe fundamental human values, including labor rights. In short, the lure of market access to the United States and the European Union should be used to expand the domain of human rights.

The key consideration here is the efficacy of labor standards policies. Will they improve human rights among would-be trading partners? Or will they slow progress toward human rights by keeping politically powerless workers mired in poverty? Some countries, including China, might reject otherwise appealing trade deals that contain enforceable labor standards. By insisting on tough labor standards, the wealthy democracies could lay claim to the moral high ground. But they might have to forgo a trade pact that could help their own producers and consumers while boosting the incomes and political power of impoverished Chinese workers.

The second argument for strict labor standards stresses not the welfare of poor workers, but simple economic self-interest. A trading partner that fails to enforce basic protections for its workers can gain an unfair trade advantage, boosting its market competitiveness against countries with stronger

labor safeguards. Including labor standards in trade deals can encourage countries in a free trade zone to maintain worker protections rather than abandoning them in a race to the bottom. If each country must observe a common set of minimum standards, member countries can offer and enforce worker protections at a more nearly optimal level. This second argument, unlike the first, can be assessed with economic theory and evidence.

Evaluating these arguments requires answering three questions. First, what labor standards are important to U.S. trade and foreign policy? Second, how can labor standards, once negotiated, be enforced? Finally, does it make sense to insist that our trade partners adhere to a common set of core labor standards—and if so, which standards?

## Which Labor Standards Matter Most?

Although the international community agrees broadly on the need to respect labor standards, agreement does not extend to what those standards should be. Forced labor and slavery are almost universally regarded as repugnant, but other labor safeguards thought vital in the world's richest countries are not widely observed elsewhere.

The International Labor Organization, created by the Treaty of Versailles after World War I, has published labor standards in dozens of areas, but it has identified eight essential core standards (see box on page 13), most of which refer to basic human rights. Of the 175 ILO member countries, overwhelming majorities have ratified most of the eight standards. More than 150 have ratified the four treating forced labor and discrimination in employment and wages. Washington has ratified just two standards, one abolishing forced labor and the other eliminating the worst forms of child labor, placing the United States in the company of only eight other ILO member countries, including China, Myanmar, and Oman.

Many proponents of labor standards would expand the core list of ILO protections to cover workplace safety, working

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### A Nike factory outside Ho Chi Minh City, Vietnam.

conditions, and wages. The U.S. Trade Act of 1974 defines “internationally recognized worker rights” to include “acceptable conditions of work with respect to minimum wages, hours of work, and occupational safety and health.” The University of Michigan, for example, obliges producers of goods bearing its insignia to respect the core ILO standards and also requires them to pay minimum wages and to offer a “safe and healthy working environment.”

The labor standards that might be covered by a trade agreement fall along a continuum from those that focus on basic human rights to those that stress working conditions and pay. On the whole, the case for the former is more persuasive. Insisting that other nations respect workers’ right of free association reflects our moral view that this right is fundamental to human dignity. Workers may also have a “right” to a safe and healthy workplace, but that right comes at some cost to productive efficiency. Insisting that other nations adopt American standards for a safe and healthy workplace means that they must also adopt our view of the appropriate trade-off between health and safety, on the one hand, and productive efficiency, on the other.

### Enforcing Labor Standards: The Status Quo

The principal global institution enforcing labor standards today is the ILO, which reports regularly and periodically on the steps each nation takes to implement the standards it has ratified. If complaints are lodged, the ILO investigates the alleged violation and publicizes its findings. Even if a member nation has not ratified the freedom-of-association conventions, the ILO may investigate alleged violations of those conventions. The ILO cannot, however, authorize retaliatory trade measures or sanctions. Instead it provides technical assistance to member countries to bring their labor laws and enforcement procedures into compliance.

Although the work of the ILO has been recognized with a Nobel Peace Prize, many labor sympathizers are skeptical that

it can protect workers using its existing enforcement tools since they impose little penalty besides bad publicity.

### Putting Teeth into Standards Enforcement

Labor advocates favor strengthening enforcement by expanding the role of the World Trade Organization or using bilateral trade agreements.

WTO rules do not apply to labor standards; they govern members’ treatment of the goods, services, and intellectual property of other member countries. In those areas the WTO has developed elaborate dispute settlement procedures to investigate complaints. If a WTO panel finds that a member country has violated WTO rules, it may allow the complaining country to retaliate.

At the 1996 WTO ministerial meeting, developing countries strongly resisted efforts to allow the WTO to enforce labor standards, and the meeting concluded by affirming the ILO’s role in determining and dealing with labor standards. Similarly, when President Clinton and some EU leaders tried to bring workers’ rights into the next round of multilateral trade negotiations at the 1999 WTO ministerial meeting in Seattle, developing countries rejected the initiative.

In a recent free trade pact, Jordan and the United States agreed to protect core ILO workers’ rights. They also spelled out how to resolve disputes over labor standards: if one country weakens its labor laws or fails to bring its laws or enforcement into compliance with the ILO core standards, the other may take appropriate measures, including withdrawal of trade benefits.

The AFL-CIO has endorsed the labor provisions of the Jordan trade pact, while the U.S. Chamber of Commerce has denounced them. The Chamber favors free trade agreements, and it fears that most countries will resist including enforceable labor standards in any new agreement. This view is almost certainly correct, at least in the developing world.

## Practical Difficulties

Some Americans may fear that including enforceable labor standards in trade agreements will open the United States to charges that it fails to enforce ILO core standards, exposing it to possible trade penalties. But U.S. civil rights and labor laws already contain the fundamental protections demanded by the ILO conventions.

Citizens in developing countries might be less confident that their laws and enforcement procedures will meet the tests implied by the ILO conventions, especially as construed by observers from affluent countries. Interpretations devised in the drawing rooms of Paris or the recreation rooms of suburban Washington might seem out of touch with conditions in countries where half or more of the population lives on less than \$2 a day.

Two of the most troublesome ILO standards involve child labor. Rich countries—very sensibly—restrict children's participation in the job market so that youngsters can attend school and prepare to become workers. But in poor countries, where children's earnings are a crucial family resource and schooling may be unavailable, the restrictions may not be appropriate. Of course, children in poor countries deserve protection and education too, but the standard of protection and the resources available for schooling will be far below those in a wealthy country.

A standard of protection that is appropriate in rich countries can impose excessive burdens on poor ones. Third-world leaders fear, understandably, that including enforceable labor standards in trade treaties will expose their countries to constant challenge in the WTO—and that the standards will be used mainly to protect workers and businesses in developed countries from competition from third-world workers.

AFL-CIO President John Sweeney denies that enforcing labor standards can have a protectionist impact. The ILO standards, he notes, are designed to protect the interests of workers in low-income as well as high-income countries. The WTO and United States strongly defend intellectual property (IP) rights and enforce trade penalties when developing countries violate those rights. Extending the same protections to workers' rights, he reasons, cannot be protectionist.

While it is easy to sympathize with Sweeney's view, there is a big difference between worker rights in another country and the IP rights of a country's own citizens. If Burma denies its workers the right to organize independent unions, its actions are deplorable but do not directly injure me. If Burma allows publishers and recording companies to reproduce my copyrighted books and songs without compensating me, the theft of my creative efforts injures me directly. It is hardly surprising that U.S. voters would insist on remedies for injuries to themselves before fixing the problems of workers overseas. Sweeney may object that the injury to Burmese workers from human rights abuses is much more serious than the monetary losses from copyright infringement suffered by a handful of artists, inventors, and U.S. corporations. And he may well be right. But American artists, inventors, and corporate shareholders can vote in U.S. elections; Burmese workers cannot.

## How to Assess WTO Penalties?

If the WTO is to be used to assess penalties against countries violating international labor norms, its member countries must devise a new way to assign penalties for violations. Under current procedures, a country found to have a valid trade complaint may retaliate against the offending country by withholding a trade benefit roughly equivalent to the benefit denied it by the offender as a result of the violation of WTO rules. It is not obvious how to calculate the penalty when the violation involves a labor standard. There the injury has been suffered by workers in the offending country, and residents of the complaining country may have enjoyed a net benefit.

Suppose, for example, the United States accuses another country of employing underage children in its apparel industry. The violation increases the offending country's supply of low-wage workers, thus reducing producers' wage costs and the prices charged to domestic and overseas consumers. The adult workers in the offending country have clearly suffered injury, as have the children if their work has deprived them of schooling that was otherwise available.

How did the violation affect Americans? U.S. apparel workers probably lost wages and jobs. But their losses are counterbalanced by gains to U.S. consumers, who bought clothing more cheaply because of child labor in the offending country. Since all American workers, including those in the apparel industry, are themselves consumers, it is not clear whether the violation injured U.S. workers as a class. Last year apparel imports into the United States exceeded exports by about \$55 billion. If the use of child labor overseas cut the cost of imports, Americans spent less for clothing than they otherwise would have. While most Americans deplore child labor, at home or abroad, it is hard to see how an overseas violation of the child labor standard has injured them. Nor is the United States likely to weaken its own child labor laws because it has benefited from the availability of cheaper imported clothes.

## Private Sanctions

As a final option for enforcing labor standards, American consumers can apply their own private sanctions. Anyone who finds child labor or forced labor reprehensible can refuse to buy products made in countries that tolerate those practices. The ILO could push consumers into action by publishing information about offending countries and their violations. It could also publicize any country's refusal to cooperate with ILO investigations. If voters want more information about imported goods and services from countries that comply with ILO standards, their own national governments can provide it. Washington can help American consumers increase pressure on offending countries by requiring sellers to label products with the country of origin. It could also encourage or require sellers to identify goods and services produced in countries that fully comply with ILO's core labor standards.

## Should Uncle Sam Enforce Labor Standards?

The case for enforcing labor standards is strongest when it



# Core ILO Labor Standards

**Freedom of association.** Workers and employers shall have the right to form and join organizations of their own choosing without interference from public authorities.

Where multiple organizations are established, workers and employers shall be free to join any of them. (Convention #97, adopted 1948)

**Right to organize and bargain collectively.** Workers shall enjoy protection against antiunion discrimination, both when hired and throughout their term of employment. Member states shall promote voluntary negotiation between unions

and employers on the terms and conditions of employment. (Convention #98, 1949)

**Prohibition on forced labor.** Member states shall prohibit compulsory labor in all forms. Forced labor is that “exacted from any person under the menace of any penalty and for which the said person has not offered himself voluntarily.” (Convention #29, 1930)

**Abolition of forced labor.** Member states shall not use compulsory labor as political coercion, punishment for political views, retaliation for union activity, workforce

mobilization, labor discipline, or racial or other forms of discrimination. (Convention #105, 1957)

**Prohibition of employment discrimination.** Member states shall eliminate discrimination in access to employment and training on the basis of race, gender, national origin, and religious or political belief. (Convention #111, 1951)

**Equal pay for men and women.** Member states shall promote equal pay for men and women who perform work of equal value. (Convention #100, 1958)

**Minimum age of work.** Ordinary work should not be per-

formed by children younger than the last age of compulsory schooling, and in no event by children under 15. (A temporary exception allowing light work as early as age 12 is permitted for very poor countries with underdeveloped educational systems.) (Convention #138, 1973)

**Prompt elimination of the worst forms of child labor.** The worst forms of child exploitation, including slavery, debt bondage, all forced or compulsory labor, and the sale or trafficking of children, particularly for illegal activities, is prohibited. (Convention #182, 1999)

involves basic human rights, such as freedom of association or freedom from slavery, and when it rests on moral grounds rather than economic calculation. If Washington wants to require its trading partners to respect basic human rights, it must be prepared to accept the real costs it will thereby impose on its own producers and consumers—and occasionally on the victims overseas whom it is trying to help. Economic theory and evidence may be useful in calculating the potential cost of trade sanctions to the United States and its trading partners. It is not helpful in determining whether the potential gains to human rights are worth the income sacrifice. Nor is social science very informative about whether a policy of trade sanctions is likely to improve victims’ rights.

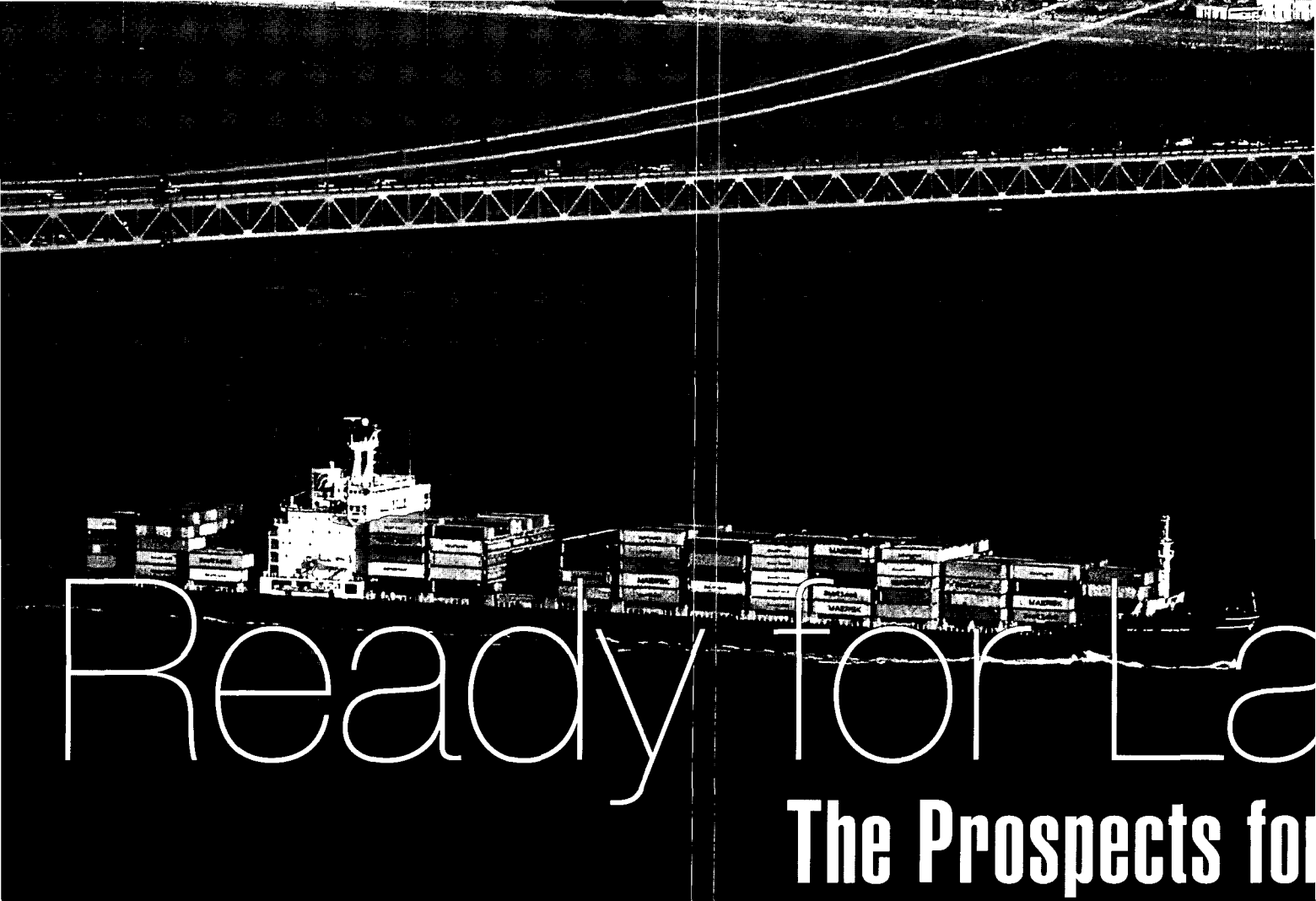
The case for requiring U.S. trade partners to respect international labor standards is least compelling when it involves the terms and conditions of employment. If a country respects ILO core standards, then workers will be able to negotiate for the best combination of pay, fringe benefits, work hours, and workplace amenities that their level of productivity allows. If we insist that the resulting compensation package meet minimum international standards, we are substituting our own judgment for that of the affected workers and their employers.

Readers may object, rightly, that the weak bargaining position of workers in poor countries makes it unlikely that their negotiations with employers will secure decent compensation and safe working conditions. But their weak bargaining position is linked to their low productivity and skills. Today U.S. and European labor standards are much higher, and labor regulation enforced more rigorously, than was the case 50 years ago. The improvement is closely associated with workers’ increased skill and productivity. Even in the developing world, the better-off countries are more likely than the poorest to

conform to ILO labor standards. In countries with per capita income of \$500 a year or less, 30–60 percent of children between the ages of 10 and 14 work. In countries with per capita income of \$500–1,000, just 10–30 percent of youngsters work. As productivity improves, so too will the bargaining position and wages of industrial workers. If history is any guide, national labor standards will improve as well.

The most reliable way to improve the condition of third-world workers is to boost their average productivity. Concerned voters in rich countries can help make this happen by pressing to open up their own markets to third-world products. Many low-income countries have a comparative advantage in manufacturing apparel, textiles, and footwear and in producing staple foods, fruits, and vegetables. Rich countries often impose high tariffs or quotas on these products, and nearly all provide generous subsidies to their farmers—thus denying third-world producers and farmers access to a huge potential market. The World Bank estimates that tariff and nontariff barriers, together with subsidies lavished on U.S. and European farmers, cost third-world countries more in lost trade than they get in foreign aid.

If we insist that developing countries meet immediately the labor standards that the richest countries achieved only gradually, we will keep some of them out of the world’s best markets. The poor countries that agree to abide by ILO standards will occasionally be challenged—sometimes by representatives of rich countries more intent on protecting their own workers from “unfair” overseas competition than on improving the lot of third-world workers. While the moral case for requiring our trading partners to respect labor rights is compelling, the case for removing trade barriers that limit the product markets and incomes of the world’s poorest workers is just as powerful. ■



# Ready for La

## The Prospects for

**W**ith only two months left until the World Trade Organization meeting in Doha, Qatar, it is still an open question whether trade ministers will agree to launch a new round of global trade talks. How the question is resolved matters for the livelihoods of millions both in the developing world and in the wealthiest nations. The current economic slowdown makes agreement all the more important but also more difficult. Market forces no doubt will continue to drive globalization forward regardless of the outcome in Doha. But whether negotiations are launched—and on what basis—could determine far into the future the rules under which further globalization takes place and the distribution of benefits among and within nations. Much is at stake.

Impediments to the launch of negotiations are serious but surmountable. Reconciling the divergent interests of the world's trading nations will require accommodation among key industrialized nations—the United States, Japan, and the European Union chief among them—and agreement between these nations and key middle-income and poor countries. In addition, each nation—the United States in particular—must enter the negotiations with broad domestic support.

### **Getting to Yes among the Wealthiest Nations**

The outlines of an agreement among the industrialized countries have been discernible for some time. The question is when and how each can make the requisite trade-offs among domestic interests to strike the deal.

Having been burned in their efforts

to launch a world trade round at the 1999 WTO meeting in Seattle, American policymakers may hesitate to be out front in pursuing that goal this year. But leadership in the global trade system is in America's national interest. The U.S. agenda includes ambitious goals for opening agricultural and services markets (where it has many allies) and modest goals on social issues (where it has few). The key U.S. defensive priorities include antidumping—or unfair trade remedies—and protection in a few vulnerable sectors.

The United States has pushed market access as the central thrust of the next trade round. Doing so is in America's interest and is also the strongest point of common interest with developing nations. In particular, the last world trade round—the Uruguay Round, implemented in 1995—mandated follow-on negotiations for market access in agriculture and services, both areas of particular U.S. strength.

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By Lael Brainard

# unch? Global Trade Negotiations

PHIL SCERMEISTER/CORBIS

Today, farmers face tariffs averaging 50 percent, and quotas continue to hinder trade in major farm products, while negotiations have brought average industrial tariffs down to 4 percent, and quotas on industrial products have been banned. Similarly, services sectors are presumed closed unless countries offer them up to foreign competition, while the reverse is true for all other products. There is also a strong logic for the next round to lock in open markets for the products and services associated with the new economy rather than risking far more contentious negotiations in the future, once barriers have grown and vested interests formed.

But agricultural liberalization is a sensitive issue for Japan and Europe, since both heavily subsidize their inefficient farm sectors. In reality, the European Commission has a considerable interest in WTO negotiations on agriculture. A deal that forces subsidy cuts would enable the Commission to blame

the WTO for agricultural reforms that will be essential if big farm producers like Poland are to join the EU without busting the budget—half of which now goes to farm support. Moreover, there is particular urgency because the so-called “peace clause” preventing agriculture disputes between the United States and the EU is set to expire in 2003.

But France strongly opposed the agricultural terms negotiated in Seattle and will remain resistant unless the EU broadens the agenda to include subjects such as investment and competition policy. That will provoke opposition from many developing countries, which are overwhelmed by having to implement the rules agreed in the last global negotiating round, and from the United States, which worries that these issues will provoke controversy, prolong negotiations, and possibly undermine strong domestic regulations for little gain abroad. American officials took to heart the high-profile 1998 failure of negotia-

tions on an investment accord among the wealthiest nations, which aroused strong grassroots opposition in the United States and Europe. They are likewise skeptical of the prospects for global agreement on competition policy. As the U.S. Trade Representative has signaled, the United States nevertheless can go some way in accommodating the EU's objectives on these issues, trusting that the negotiations ultimately will be circumscribed by opposition from key developing countries.

The EU also has an ambitious offensive agenda on trade-related environment issues, reflecting the strength of its environmental constituencies and weak consumer confidence in the food safety system. This agenda faces strong opposition from a coalition of agricultural exporters (the Cairns Group) and from many developing countries, which are concerned about disguised protectionism. Although many Americans share European interests in ensuring that global trade rules respect domestic protection of the environment, the two sides differ over how to achieve the goal. The EU is an ardent proponent of a broad interpretation of the precautionary principle, which would allow countries to restrict imports in cases (such as beef grown with hormones and genetically modified foods) where serious public concerns exist. The United States favors a narrower interpretation of the precautionary principle that would limit restrictions on the basis of risk assessment in cases where the science is not yet sufficiently advanced and on the basis of sound science otherwise. Second, in disputes involving trade and the environment, the EU favors a general deference of WTO disciplines to multilateral environmental agreements. The United States, for its part, opposes blanket deference and has generally preferred to see issues of overlap worked out through the jurisprudence of the WTO, which so far has been largely on the side of domestic environmental regulations. Given the strong European reaction to the U.S. reversal on the Kyoto global warming accord, the United States would be wise to start out in a moderating posture on the



trade-related environment issues, since the Cairns Group and many developing countries will continue to oppose the EU's environmental agenda.

The United States and Japan (as well as Korea) differ most sharply on the issue of antidumping, with steel at the center of the debate. Going into Seattle, Japan opposed a global round and used the stalemate over antidumping as a convenient pretext. Japan's interest in global trade negotiations appears to have grown of late. To move forward, Japan must accept the hard truth that there is little flexibility in the United States on antidumping. Bipartisan opposition is strong, especially against the backdrop of sharp U.S. job losses in steel and the manufacturing slowdown. But the United States will have to accept the equally hard truth that antidumping cannot be taken off the table completely. One possible area of accommodation with Japan would be a program confined to the administration of existing antidumping laws. Indeed, the United States has a growing interest in the fair and transparent administration of foreign laws, since developing countries are increasingly resorting to their own antidumping investigations, with America squarely in their sights.

### **A Good Deal for the Developing Nations**

Any deal worked out among the wealthiest nations must entice developing nations to the bargaining table. To succeed, the negotiating agenda must be perceived to deal fairly with the interests of poorer nations, including significant liberalization of trade in agricultural and industrial products, expanded market access for the poorest countries, flexibility on implementing existing commitments, restraint on the scope of the agenda, and reform of the WTO governance structure. Brokering such a deal will be complicated because, although the developing countries are effective as a blocking coalition, their interests are highly diverse.

The biggest prize for many developing nations is freer agricultural export markets—including not only the reduction of tariffs and quotas but also signif-

icant reductions in production and export subsidies. Wealthy nations, and particularly the EU, spend roughly \$300 billion a year—more than the combined national income of Sub-Saharan Africa—on agricultural support.

Developing countries also want expanded access into industrial sectors where trade barriers remain high—including apparel, where there is concern that the industrialized nations are in no rush to fulfill their commitment to eliminate import quotas by 2005. Japan, the United States, and the EU will probably agree not to exclude any industrial products from the negotiations up front, but will probably likewise refrain from committing to any particular concessions. In the United States, despite strong opposition to further liberalization in selected industries, restructuring of domestic industry is already well under way as a result of the North American Free Trade Agreement and existing trade preference programs. With some exceptions, lowering barriers on imports from more countries will likely result more in a shift of imports among developing nation suppliers than in further displacement of domestic production.

The wealthiest nations all back expanded market access for the poorest reform-oriented nations to bolster support for market-driven development, but they disagree on the details. The EU has put forward an ambitious-sounding offer of access, but some suspect that, like the EU's existing preference programs, it will fall short on agriculture. The United States offers among the most generous preferential access in the world, with recent and proposed legislation expanding preferences for the Caribbean Basin, Africa, and Southeast Europe, but apparel access will likely remain somewhat conditional. To complicate matters, special access for the poorest is opposed by many middle-

income countries, who see themselves as the losers when favorable tariff rates are offered to lower-wage competitors.

Implementing trade agreements can be extremely costly for developing countries. Michael Finger of the World Bank and Philip Schuler of the University of Maryland estimate that a typical developing country must spend \$150 million to implement just three of the WTO's many agreements—on intellectual property, customs valuation, and technical standards. That's more than the entire annual development budget for

many poor countries. Developing countries' objections to implementation vary widely. Some simply oppose specific Uruguay Round commitments. Others are willing to implement but lack the legal, judicial, or administrative resources. For the latter group, the developed countries could provide technical assistance and permit flexi-

bility on deadlines in return for a commitment to a detailed work program and timeline for compliance. In addition, special circumstances—such as the HIV/AIDS crisis in Africa—warrant special exceptions.

Many of the smaller poor nations have legitimate concerns about how well the WTO represents their interests. Although in principle a consensus organization, in practice the WTO has lent itself to agenda-setting by a small group of wealthy nations through a nontransparent, ad hoc process. Although it is clear that the traditional model will no longer work, it is equally clear that requiring consensus among 142 members is a recipe for deadlock. The wealthiest nations should support reform of the WTO that better represents member interests yet keeps decisionmaking efficient. This challenging and time-consuming exercise in institutional reform, however, must proceed in parallel with rather than as a precondition for the launch of negotiations.

Any potential trade deal worked out among the wealthiest nations must entice developing nations to the bargaining table.

Finally, trade proponents and opponents alike must remember that trade is necessary but by no means sufficient to drive growth in the developing world. Wealthy nations must build public support for targeted, efficient development assistance, just as the poor countries themselves must lay solid domestic foundations for broad-based growth.

### **Building Support at Home**

The United States must rebuild broad support at home as it enters the next round of trade negotiations. In the run-up to the WTO ministerial at Doha, the Bush administration has made a tactical choice to pursue fast-track trade authority legislation that would commit Congress to take an up-or-down vote on any trade agreement the president negotiates.

But trade authority in the abstract is a hard sell. Asking Congress for an open-ended grant of authority to pursue trade agreements whose benefits are as yet undefined and far into the future is a recipe for trouble. A powerful coalition of trade opponents has demonstrated that they can bridge their differences and mobilize effectively to oppose trade legislation. But supporters have mounted full-fledged offensives only when concrete benefits are in the offing. In 1997, with no trade agreement pending, trade authority failed in the House of Representatives, but in 1994, when the hard-won gains of the Uruguay Round hung in the balance, the House vote was 295 to 125 in favor, including nearly 60 percent of Democrats. Similarly, in 2000 the vote to grant China permanent normal trade relations succeeded, despite the unpopularity of trade votes in election years, because of the strength of the underlying trade agreement with China.

Although a strong trade authority vote would be a powerful symbolic demonstration of U.S. congressional support, the more likely scenario is a bruising battle that, even if ultimately successful, may do more to cast doubt on America's negotiating credibility than to bolster it. Moreover, seeking trade authority at this early juncture reinforces expectations abroad that

without it, America cannot be a responsible negotiating partner—even though recent history suggests otherwise. In the absence of trade authority, for example, the United States joined in launching the Uruguay Round and negotiations toward the Free Trade Area of the Americas. Moreover, congressional consultation and input on the launch and conduct of trade negotiations can be secured in other ways without putting members in the uncomfortable position of taking a vote that forces them to declare whether they are for or against trade in the abstract.

Nevertheless, to maximize the prospects for success, President Bush should reach out to Democrats and pursue trade authority legislation that addresses the legitimate concerns of many Americans. Getting the House to pass pro-trade legislation has been difficult in recent years because of a growing number of trade opponents within the Republican caucus and the reluctance of the House leadership to make the compromises necessary to attract a compensatory number of Democrats (the China PNTR vote succeeded in part because key concessions were made). But President Bush could change that dynamic, retaining support from much of his own caucus and gaining the support of many Democrats by demonstrating a genuine commitment to address concerns on labor and the environment.

Even the most orthodox economists acknowledge that although trade expands the overall pie, there is no guarantee the gains will be equitably shared. Not only do the less skilled fare poorly on a relative basis, but many who lose their jobs may take years to find work at comparable pay. Thus, any serious effort to gain support for trade liberalization must at a minimum include expansion and reform of adjustment assistance for dislocated workers.

A serious effort must also address labor and environmental standards. Americans want trade to be a force for rising living standards and human dignity both here and abroad. Unfortunately, the current debate suffers from a serious lack of trust among the main protagonists.

In the United States, a fabric of social protections was woven together over several decades as the national economy grew increasingly integrated. These protections, emerging from an evolutionary domestic process, in turn contributed to the development of a mass middle class and sustained prosperity. The question today is whether globalization makes it more difficult for individual developing countries to weave such a safety net because of a harmful race-to-the-bottom dynamic, especially in "footloose" industries such as textiles and footwear, where a global floor could be helpful.

We are in the early stages of understanding the linkages between labor standards and trade (see Gary Burtless's article in this issue). At the multilateral level, the obvious first step is to establish a dialogue to promote common understanding, but even that is contentious. Most developing countries oppose housing a dialogue at the WTO because they fear it will be the first step to trade sanctions, since the WTO is notable among international institutions for its binding dispute settlement. And proponents of labor standards worry that housing a dialogue at the notoriously weak International Labor Organization would render the dialogue irrelevant. The obvious middle ground—which came close to acceptance in Seattle—is a dialogue shepherded jointly by both institutions.

### **High Stakes**

Whether the world's trade ministers will be able to launch a new trade round at Doha in November remains uncertain. It is far from clear that the wealthy nations and the key developing countries can make the requisite accommodation in time. As November approaches, America's foreign trade partners will be scrutinizing the U.S. congressional trade authority debate to see whether Washington will enter the negotiations with broad domestic support and sufficient negotiating flexibility. How these scenarios play out could affect the shape of the world trading system, and America's role in it, for years to come. ■

By Steven Kull

# Culture Wars?

## How Americans and Europeans View

If the fulminations of some European pundits and politicians are to be believed, globalization is a project foisted by Americans on an unwilling world—in particular, an unwilling Europe, whose aroused public stands ready to defend not only the continent's trade barriers, but its very culture. Polling data from both sides of the Atlantic, however, paint quite a different picture. Well below the shrill tones of the dueling diplomats and clashing columnists, the publics on both sides of the Atlantic are speaking in voices that are measured—and surprisingly harmonious.

In fact, American and European publics see globalization quite similarly. According to a U.S. State Department poll of Europeans in the fall of 2000, 65 percent of the British respondents, 73 percent of the Germans, 57 percent of the French, and 62 percent of the Austrians judged globalization to be primarily positive. The Italians were somewhat less positive (50 percent) though only 23 percent rated globalization a bad thing. A roughly contemporaneous Harris poll of Americans (April 2000) found that 64 percent believe that globalization is good for the U.S. economy. In an October 1999 survey by the Program on International Policy Attitudes (PIPA) of the University of Maryland, when asked to rate globalization on a 0 to

10 scale, with 10 being very positive, Americans gave a mean response of 6—on the positive side, but only moderately so.

### International Trade

In principle, both Europeans and Americans want to see trade grow. In the spring of 1999, a U.S. Information Agency poll offered Europeans two approaches to trade: “Some countries favor free trade to promote economic growth and lower prices for consumers. Other countries favor restrictions on free trade to protect their own products and jobs against foreign competition.” Asked which they would prefer, majorities chose free trade in Britain (57 percent), France (62 percent), Germany (60 percent), and Italy (77 percent). In response to a similar question posed by the Pew Center for the People and the Press in February of 2000, 64 percent of Americans said that free trade is good for the United States.

At the same time, the public on both sides of the Atlantic worries about trade's effect on jobs. Overwhelming majorities believe that trade growth entails the loss of at least some jobs (table 1). But the concern seems stronger in the United States than in Europe. Asked to assess job loss due to foreign imports, 38 percent of Americans told PIPA (in October 1999) that “many jobs” are lost, whereas only 34 percent of the British and French, 30 percent of the Germans, and 16 percent of the Italians gave that response to a spring 1999 USIA poll. A plurality in every country (50 percent in the

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## Globalization



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United States, 47 percent in Britain, 45 percent in France, 37 percent in Germany and Italy) said that imports cost “only a few jobs.” Few thought that trade growth would cost no jobs, with the smallest share (9 percent) in the United States and the largest (35 percent) in Italy.

Though neither side fears excessive job loss, both support having some trade barriers to protect employment. In May 1997 a USIA poll gave Europeans this choice: “Some people favor restrictions on foreign imports to protect...jobs. Others oppose restrictions because they lead to higher consumer prices. Which view is closer to your own?” Most—51 percent of the British, 56 percent of the Germans, and 63 percent of the French—said they preferred restrictions. Europeans are particularly concerned about imports from low-wage countries. Asked whether their country “should open its markets more than it already has to low-cost goods...from the former Soviet Union and Eastern Europe,” a majority of the French (65 percent) and Germans (63 percent) was opposed, as was a plurality of the British (46 percent).

Presented a choice between protecting jobs and enjoying lower prices, Americans too support shielding jobs. They are also apprehensive about imports from low-wage countries. But the October 1999 PIPA poll found that Americans are not so much protectionist as that they see trade barriers as a temporary measure to help workers adapt. Given three options on the question of trade barriers, only 31 percent agreed that “We

should keep up barriers against international trade because importing cheap products from other countries threatens American jobs.” Only 24 percent believed that “We should remove trade barriers now because this allows Americans to sell in other countries what they do the best job of producing, and to buy products that other countries do the best job of producing, saving everybody money.” Forty-three percent judged that “We should lower trade barriers, but only gradually, so American workers can have time to adjust.” Thus 74 percent endorsed having some trade barriers for now, but 67 percent supported the goal of ultimately lowering them.

Offered the possibility that their government could help workers adapt to trade-related changes, Americans’ support for free trade becomes overwhelming. Given three options for describing their attitude on trade in the 1999 PIPA poll, 66 percent chose “I favor free trade and I believe that it is necessary for the government to help workers who lose their jobs.” A smaller 18 percent supported free trade but did not support government aid to workers, thus bringing to 84 percent the share who support free trade under some condition. Only 14 percent opposed free trade when given the option of worker programs.

Although no comparable data confirm how Europeans would feel about trade if their governments made greater efforts to help workers adapt, Europeans strongly support their existing systems of protecting workers and are more critical of the U.S. system. In response to a USIA poll in May of 1997, majorities in

Table 1. Do you think that importing foreign products means the loss of many jobs in this country, only a few jobs, or no jobs?

PERCENT

|                         | RESPONSE<br>IN UNITED<br>STATES | RESPONSE<br>IN<br>BRITAIN | RESPONSE<br>IN<br>FRANCE | RESPONSE<br>IN<br>GERMANY | RESPONSE<br>IN<br>ITALY |
|-------------------------|---------------------------------|---------------------------|--------------------------|---------------------------|-------------------------|
| Many jobs lost          | 38                              | 44                        | 40                       | 32                        | 16                      |
| Only a few jobs lost    | 50                              | 42                        | 42                       | 41                        | 37                      |
| No jobs lost            | 9                               | 9                         | 16                       | 18                        | 35                      |
| Don't know or no answer | 3                               | 4                         | 3                        | 9                         | 12                      |

Source: U.S. data, PIPA (October 1999); European data, USIA (Germany, France & Britain: May 2000; Italy: April 1999)

Table 2. How much of a threat do you think American popular culture, such as music, television and films, is to the cultures of other countries in the world?

PERCENT

|                         | UNITED<br>STATES | BRITAIN | FRANCE | GERMANY | ITALY |
|-------------------------|------------------|---------|--------|---------|-------|
| Very serious threat     | 7                | 7       | 8      | 10      | 6     |
| Serious threat          | 17               | 16      | 30     | 21      | 13    |
| Minor threat            | 33               | 39      | 46     | 50      | 21    |
| Not a threat at all     | 41               | 36      | 16     | 19      | 58    |
| Don't know or no answer | 4                | 1       | —      | 1       | 2     |

Source: U.S. data, PIPA (October 1999); European data, USIA (November 2000)

Table 3. In general, what is your opinion of American popular culture, such as music, television and films?

PERCENT

|                         | UNITED<br>STATES | BRITAIN | FRANCE | GERMANY | ITALY |
|-------------------------|------------------|---------|--------|---------|-------|
| Very favorable          | 21               | 20      | 9      | 14      | 16    |
| Somewhat favorable      | 39               | 47      | 43     | 45      | 46    |
| Somewhat unfavorable    | 25               | 21      | 35     | 33      | 23    |
| Very unfavorable        | 14               | 9       | 11     | 5       | 10    |
| Don't know or no answer | 2                | 3       | 2      | 4       | 5     |

Source: U.S. data, PIPA (October 1999); European data, USIA (November 2000)

France (76 percent), Germany (68 percent), and Britain (57 percent) agreed that the U.S. system “neglects too many social problems because of a lack of job security and few employment benefits for many workers.” On average, only a quarter favors the U.S. model “because it is able to maintain economic competitiveness through a flexible system of labor.” In a separate poll by *Le Monde* in France in October 1996, 66 percent preferred the French system, with good social protection but high unemployment, while 18 percent preferred the U.S. system, with little social protection but low unemployment.

Americans do not look just to domestic efforts to address the threats to U.S. workers. The 1999 PIPA poll found that an overwhelming 93 percent favor including labor standards in trade agreements to ensure that U.S. workers will not face unfair competition from exploited workers overseas. Support for this measure, though, was not rooted simply in concern for American workers: 83 percent agreed that it is “immoral for workers to be subject to harsh and unsafe conditions.”

Indeed, Americans take a broad attitude toward trade. While

they value it, they believe that its growth should take into account other values, even those that slow that growth. For example, they want to incorporate environmental standards into trade agreements and are not overly concerned if that slows the growth of trade—hardly a surprising view given that Americans tend to believe that trade’s benefits only moderately outweigh its costs.

### Opening Markets

Europeans would be amused to hear themselves described as stubbornly resisting American entreaties to open European markets. Asked, in a 1998 USIA poll, how easy or difficult their own country makes it for U.S. manufacturers to sell their products there, an overwhelming majority of Europeans said that their country makes it quite easy (Britain 81 percent, France 84 percent, Germany 68 percent). Far fewer saw the United States as open to European products (Britain 46 percent, France 34 percent, Germany 38 percent).

In a classic case of the mirror-image phenomenon, Americans have the opposite perception. An overwhelming 86 percent of respondents to a PIPA poll conducted from February to April of 1998 said the United States makes it easy for European manufacturers to sell their products in the United States, while just 41 percent said western European countries make it easy for the United States to sell its products in Europe.

Americans have shown their readiness to further open their markets to European products on a reciprocal basis. When a PIPA poll in the spring of 1998 asked, “If the countries of the European Union say they will lower barriers to products from the United States if we will lower our barriers to their products,” 64 percent said the United States should do so, while 28 percent said it should not. And Americans wanted to lower trade barriers with Europe even though 48 percent (mistakenly) voiced a belief that labor standards are lower in Europe than in the United States. Just 18 percent thought that labor standards are higher in Europe; 25 percent, that they are about the same.

## Foreign Investment

Europeans appear more open to foreign investment than are Americans. Asked in the 1999 PIPA poll to choose between two statements—"foreign investment is dangerous because it allows outsiders too much control over our affairs" and "foreign investment is necessary and has a positive influence on our economy"—52 percent of Americans chose the negative view, 43 percent the positive. Most Europeans chose the positive view (Britain 51 percent, France 53 percent, Germany and Italy 59 percent).

## Spread of American Culture

Polls also gainsay the notion that Americans are on a mission to spread their culture through globalization, while Europeans are fending the Americans off to protect their own culture.

Europeans, it turns out, have a fairly benign view of American culture (table 2). In a November 2000 USIA poll, only small minorities in Italy (19 percent), Britain (23 percent), and Germany (31 percent) regarded U.S. popular culture as a serious or very serious threat. The French were somewhat more critical, with 38 percent agreeing that American culture poses a serious or very serious threat. But 62–79 percent in these four countries saw it as only a "minor threat" or "not a threat at all." Furthermore, a solid majority in Italy (62 percent), Britain (67 percent), and Germany (59 percent), and a modest majority in France (52 percent), all viewed U.S. popular culture favorably. Unfavorable responses ranged from 30 percent in Britain to a high of 46 percent in France (table 3).

In fact, Americans and Europeans differ little in their view of U.S. popular culture. Like their neighbors across the Atlantic, Americans tend not to see their culture as a serious threat to other cultures. According to the October 1999 PIPA poll, 33 percent considered it only a minor threat, 41 percent no threat at all. Only 43 percent thought the French should have the right to limit the showing of American films.

Not that Americans are wildly enthusiastic about their own culture. Just 60 percent of Americans—roughly the European share—rated it favorably, while 39 percent rated it unfavorably. Nor are Americans overjoyed to see their popular culture spread around the world. Asked how they feel "When you see or hear about McDonalds opening up in cities around the world or when you hear about the popularity of U.S. TV shows in other countries," only 43 percent said they had positive feelings; 43 percent said they had mixed feelings, 5 percent negative feelings.

## What's All the Fuss About?

Given the consistent message of the polls to the contrary, what is the source of the view that Americans are promoting and Europeans are resisting globalization? In the first place, several high-profile U.S.-European disputes on agricultural subsidies, bananas, American films, steel, pasta, hormone beef, and more have received substantial attention in the press. Some of these disputes lend themselves to the impression that the United States is trying to force something on the Europeans—to

make small family farms unviable, to stop favoring former colonies, to watch American films, to eat beef grown with hormones. But this exaggerated image does not resonate deeply with the public. The media hype has made the disagreements seem fundamental and enduring when in fact they are little more than intrafamily conflicts over which side is going to make more adjustments within a fairly consensual broad framework and set of values.

Attempts to understand the attitudes of the publics on both sides of the Atlantic are complicated by the strident voices of vocal groups who are suffering the negative consequences of globalization or who are sympathetic to those who are. Sometimes these groups are taken as representative of the general public.

But in fact the American and European publics seem to agree that globalization is more positive than negative. At the same time, both are uneasy about the impact of globalization, especially on workers. Both desire to keep some trade barriers for now, at least long enough to help workers adapt to the changes that globalization entails. To reassure both publics, it will probably also be necessary to address globalization's effect on workers in developing countries and on the environment as well. The United States and Europe will probably continue to engage in periodic disputes over exactly how to address these concerns, but the disputes should not obscure the shared underlying support on both sides of the Atlantic for the broader process of globalization. ■

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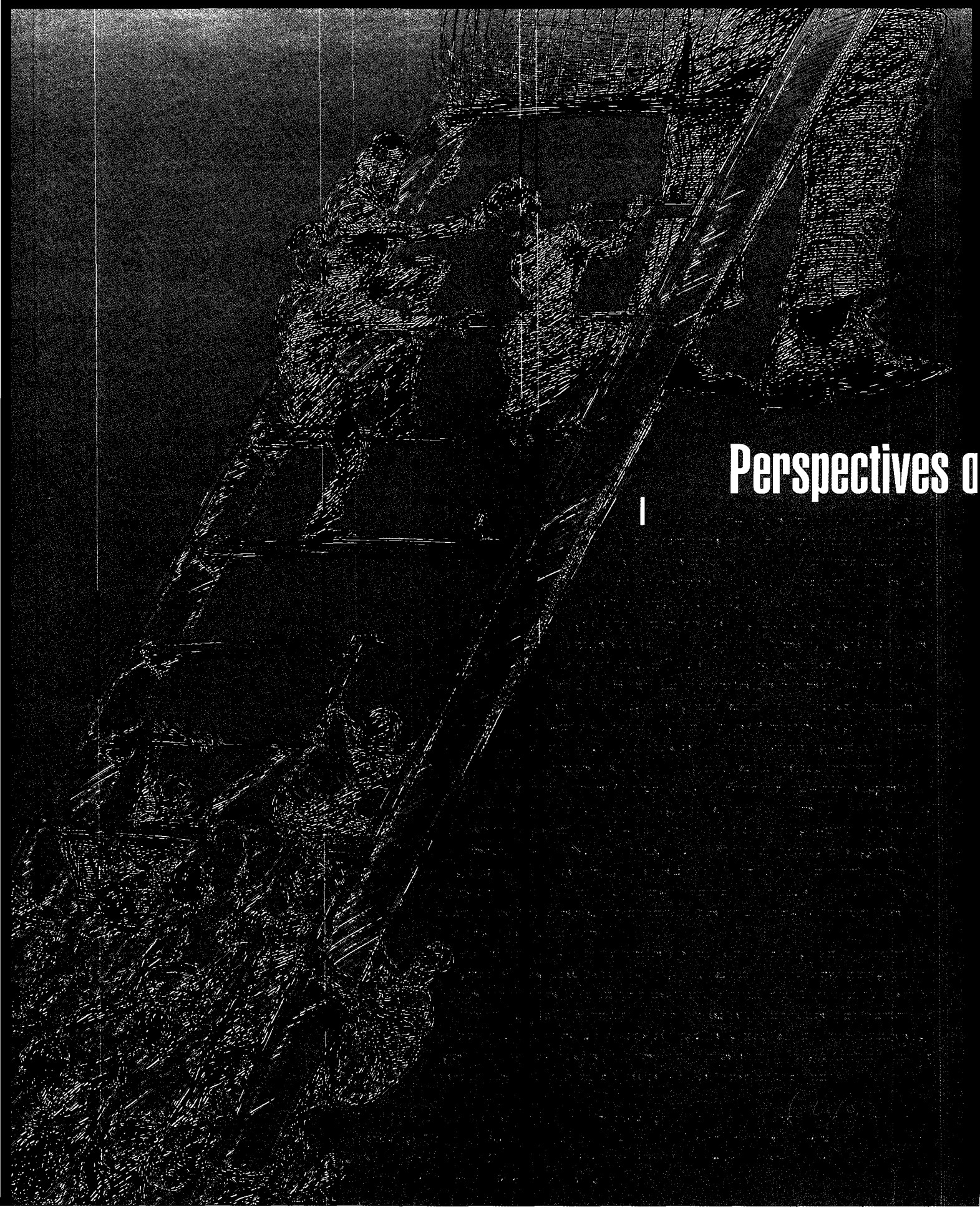
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# Perspectives of

# Winners and Losers

## Globalization from the Emerging Market Economies

A genuine backlash against globalization would not take the form of demonstrations on the streets of D.C. or Seattle. Rather, it would materialize in ballot boxes in countries like Poland or Peru. In Latin America, which has led the world in implementing market reforms, many countries that once seemed model performers are now facing economic and political uncertainty. Argentines, for example, who were recently threatened with possible spillover effects from the economic crisis in Turkey, are facing increasing questions about the sustainability of their own currency regime, which has been central to their macroeconomic stability for more than a decade. Will voters in Latin America turn against markets and integration with the world economy?

The answer is “probably not.” In Latin America, despite widespread debate over making the market model more equitable and efficient, only one political candidate, Hugo Chavez, has so far been elected to office promising to reverse integration into global markets—and that was in Venezuela, where reform was still incomplete. But matters are far from settled. In elections last June in Peru, one of the countries that has gone furthest in implementing market reforms, Alejandro Toledo ran on a pro-market platform and barely defeated former president Alan Garcia, who gained notoriety in the late 1980s by rejecting market principles—Toledo’s margin of victory was less than 5 percent.

### Who Wins and Who Loses?

Market reforms—in particular, establishing macroeconomic and fiscal stability and liberalizing trade regimes—are a prerequisite for integrating developing nations into the global economy. In Latin America, the turn to the market has delivered large—and tangible—benefits for a region plagued with high inflation, economic instability, and daunting external debt. Countries that have embraced reform have gained con-

trol of inflation, reestablished stable (if not high) growth, and liberalized and expanded the diversity of trading regimes. Most have also privatized loss-making public enterprises and insolvent social security systems.

Although market reforms are often viewed as being harsh on the poor, in reality the effect can be quite positive. Because the poor are least able to protect themselves from high inflation, for example, its elimination is particularly beneficial for them. And in many countries, market reforms have also reoriented public spending to the poor. Before reform, social spending went disproportionately to social security systems that covered limited and relatively privileged parts of the labor force, while basic social services, such as primary health and education, were severely underfunded.

Market reforms can also remove economic distortions that block the productive potential of the poor. Removing such distortions as rationed credit (because of negative real interest rates) and rigid and overprotective labor regulations that discourage hiring have helped the poor in many developing countries, as evidence from Chile, Mexico, and Peru suggests.

The same reforms that have enabled many of the poor to move well up the income distribution ladder, however, have made people somewhat higher up that ladder newly vulnerable. Many who once enjoyed middle-class status and held secure public-sector jobs have fallen into or near poverty. Relative mobility trends in reforming countries can be surprisingly volatile. Over a 10-year period many more people in Peru will move up—and down—several income quintiles than will people in the United States.

If market reforms have had different effects on people in different parts of the income distribution, what effect have they had on inequality? As our own research, building on the work of several other scholars, has shown, inequality can increase even in countries where average incomes have risen and poverty has

fallen. And, indeed, aggregate measures report a mixed effect, with inequality going down in some emerging market countries and increasing slightly in others.

One trend driving the increase in inequality has been a recent upsurge in the rewards to skilled labor. Although economists had predicted that open trade would reward unskilled labor, which is in ample supply in Latin America, the greatest rewards have gone to skilled labor, which is scarce.

As figure 1 shows, during the past decade returns to higher education in Latin America have risen far faster than returns to secondary and primary education. During the 1960s and 1970s a high school education in Latin America virtually assured a stable job, often in the public sector, as well as a middle-class—indeed, fairly privileged—standard of living. By the 1990s, however, a high school degree was much less valuable. Many public-sector jobs had disappeared, and the ones that remained were less desirable.

A related trend is top-driven inequality: vast wealth among those at the top of the income ladder relative to the rest of society, where income distribution is more equal. According to an Inter-American Development Bank study by Miguel Szekely and Marianne Hilgert, the wealthiest 10 percent of individuals in many Latin American countries earn roughly 3 times what those in the next decile earn, compared with a roughly 1.5 to 1 ratio in the United States.

One cause of top-driven inequality is the rising wage premium to educated workers. Another may be a possible increase in wealth at the top, as more open capital markets enhance opportunities for high returns. In addition, taxes on mobile capital are probably declining, while in developing countries, shallow financial sectors and underdeveloped capital markets may be limiting investment opportunities for small savers and borrowers.

The uneven benefits of globalization and market reforms no doubt explain why public opinion in the developing nations is so mixed. Those who see themselves as losers are not necessarily the poor, but rather newly vulnerable members of the middle class who perceive that gains from market reforms have gone disproportionately to the top of the income distribution.

### Frustrated Achievers

Most research on subjective well-being finds that once people have reached a certain income level, their sense of well-being is determined by relative rather than absolute income. Except for the very poorest countries, these findings hold across countries, regions, and development levels. My own survey research, conducted jointly with Stefano Pettinato, generally supports these findings.

In repeated household surveys in Peru during 1991–2000, a

surprisingly large share (44 percent) of respondents with the most upward income mobility reported that they were worse off. Household surveys in Russia during 1995–99 got even more negative results, with 71 percent of upwardly mobile respondents reporting that they were worse off (see figure 2).

What explains these negative perceptions? In Peru, the frustrated achievers had average income, but were more urban and older than nonfrustrated upwardly mobile respondents. In Russia, they had slightly lower than average income—and also more income volatility—than their counterparts who were more content. For the most part, they were not the poorest in the sample, but rather tended toward the middle of the distribution.

In Peru, while poorer respondents were much more likely to answer that their economic condition was unchanged, those in the middle were much more likely to say that it was worse.

The implications for public support for globalization are clear. In a region-wide public opinion survey of Latin America, respondents who were more satisfied with their lives were, on average, more likely to favor the market and to be satisfied with democracy. The surveys in Russia yielded similar findings. In both Russia and Peru, the frustrated achievers were less satisfied with their

jobs and more critical about their economic situation vis-à-vis others in their country. These frustrations, which may influence future economic and political behavior in the emerging economies, must be addressed.

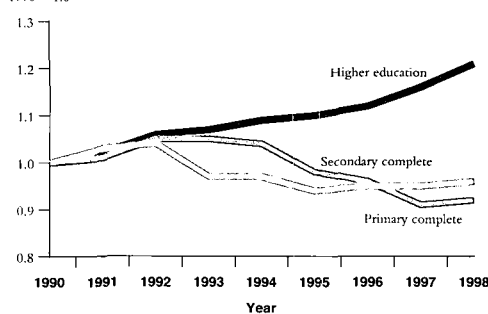
### Opportunity and Insecurity

Policymakers in emerging market countries could use three strategies to reduce insecurity and enhance upward mobility—not only among the middle class, but also among the poor. The first would be to make social services more widely available. Education policies, especially, could give a broader section of society access to jobs in the high-skill economic sectors. The second strategy would be to remove distortions in markets and in government policies that block the productive potential of low-income groups. Among these distortions I include excessive inequality. And the third would be to make safety nets and other forms of unemployment insurance more broadly available.

The first and most obvious way to enhance the mobility and opportunity of both the poor and the middle class is to improve access to good quality postsecondary education, including vocational education. Such a policy shift, however, will take time to bear fruit. It will also take sustained political commitment, institutional development, and substantial resources.

Fundamental to making better education more widely available is a more comprehensive social contract for delivering essential social services in general. The world's advanced economies have vigorously debated the merits of targeted versus more universal social welfare policies (with supporters of

Figure 1. Marginal Returns to Education in Latin America in the 1990s  
1990 = 1.0



Source: Jere Behrman, Nancy Birdsall, and Miguel Szekely, "Economic Reform and Wage Differentials in Latin America" (Working paper, Carnegie Endowment for International Peace, November 2000).



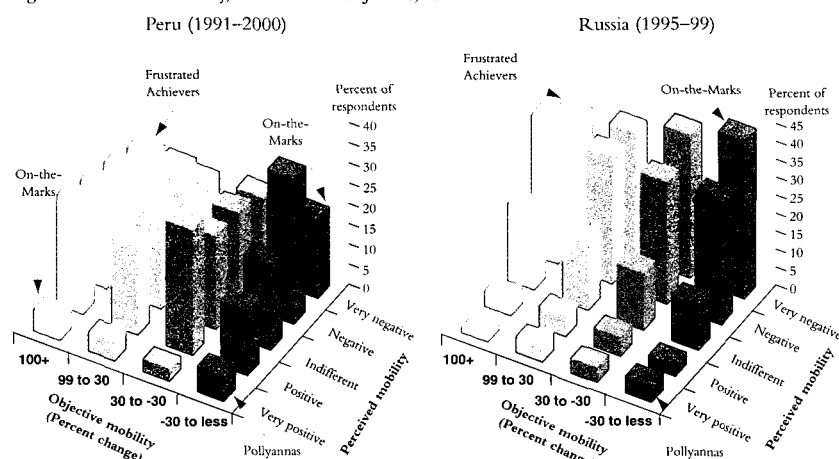
universal policies arguing that tightly targeted policies cannot sustain the political support needed to preserve public funding). Meanwhile, many developing countries that have turned to the market have increased targeting of public social spending and reduced absolute poverty, even during times of fiscal austerity. At the same time, shifts in the rewards to different education and skill cohorts, coupled with cuts in the size and scope of public services, have led to a perception and often a reality of increased insecurity for groups in the middle of the income distribution. It is time to revisit the targeting debate. At least some targeting is usually desirable when public resources are limited. Nevertheless, it is necessary to craft a

gests that high inequality has additional costs in that it creates frustrations in even the most upwardly mobile individuals. These frustrations, in turn, may erode political support for market-enhancing policies that deliver sustained growth and also cut poverty.

A third essential strategy is to provide adequate safety nets. The lack of reliable safety nets can itself result in market distortions, encouraging workers to minimize risk and guarantee job security through whatever mechanisms are available, even extremely inefficient ones such as overly rigid labor laws. And the insecurity resulting from inadequate safety nets in the face of economic volatility and changing rewards to labor sectors is surely one cause of the frustrations of our achievers.

Two kinds of safety nets are necessary. One is social insurance, such as unemployment insurance, which encourages workers to try to get ahead by protecting them from the risk of income loss caused by macroeconomic volatility and other economic shocks. The second type of safety net protects the poorest who fall behind because of low skills or because poor health and other circumstances keep them from participating even in the low-skilled sector of the economy. This issue has received attention, but usually in the context of fiscal adjustments. Policymakers must develop more permanent institutions that can expand and contract as needed and provide a buffer at times of cyclical fluctuations and during downturns caused by externally driven shocks. They must also do more to manage macroeconomic volatility.

Figure 2. Income Mobility, Perceived vs. Objective, Peru and Russia



Source: Carol Graham and Stefano Pettinato, *Hardship and Happiness: Opportunity and Insecurity in New Market Economies* (Brookings, 2001).

broader and more politically sustainable social contract, which includes middle-income groups as well as the poor.

Policymakers should aim to increase not only the supply of quality education, but also the demand for it. A wide body of literature, including work by economists Steven Durlauf and George Akerlof, has shown how inequality patterns can be perpetuated by persistent social norms and low expectations. In societies where the poor have no tradition of reaching higher-level education, policymakers should encourage low-income people to invest in their children's future.

The second policy strategy is to address distortions in markets and failures in government policies. Many countries in the developing world, particularly in Latin America, have greatly improved their macroeconomic frameworks and reduced such distortions. Yet removing distortions alone is not enough. Merely replacing poorly performing public monopolies with private ones, as some countries have done, is unlikely to diminish inequality or to provide new opportunities for the poor or near poor. Adequate regulatory policies, which level the economic playing field for participants of all income levels, are essential, as are supply-side policies that facilitate the participation of the poorest citizens.

The same policy package should address inequality. Economists have shown that excessive concentration of income and assets impedes economic growth. And my recent research sug-

## Averting Backlash

Globalization and the turn to the market have clear benefits for developing countries, both in terms of aggregate growth and poverty reduction and in terms of mobility and opportunity for low-income people. Yet new opportunities have come hand-in-hand with new vulnerabilities. Not surprisingly, public opinion about globalization and market reforms is mixed. While the street protests in the industrialized countries focus on the poor, in the developing countries people in the middle strata seem as vulnerable if not more so and also more negative in assessing their progress with the turn to the market.

That those negative perceptions exist does not mean that a backlash against globalization is inevitable. At this juncture most publics seem to be aware that self-imposed isolation from the rest of the world has high costs. Yet policymakers must address the causes of these negative perceptions—precisely so that they do not become the source of a backlash.

Reducing insecurity and distributing the benefits of reform more equitably could go a long way toward building broader and more sustainable support for continuing market policies. And persuading poor people in poor countries that opportunities exist will make them much more likely to invest in their children's education—and therefore in their future in an integrated global economy. ■

The global warming debate is heating up. President George W. Bush rejects the Kyoto Protocol as a “fatally flawed” agreement that would harm the American economy. The European Union, Japan, and other industrialized countries counter that Kyoto represents humanity’s best chance for combating global warming and vow to make it work even if Washington sits on the sidelines. Both sides have dug in their heels, and grounds for a compromise are scarce.

How did this situation develop and what will happen next? The answers to these questions lie in the science of global warming, the politics of interna-

rocarbons and sulfur hexafluoride, into the atmosphere. Although these gases are found in trace amounts, they are thousands of times more efficient than carbon dioxide at absorbing heat.

Rather than focusing on whether the earth could warm, then, the debate in the 1990s focused largely on whether it has been warming. The answer is yes. Average surface temperatures increased roughly one degree Fahrenheit during the 20th century. This number sounds unimpressive, but small variations in global temperature can translate into dramatic climate changes. During the last Ice Age, when glaciers covered much of North America, average global surface temperatures were only seven degrees lower than today.

Other evidence also points to a

climatic variation and probably stems from solar, not human, activity. While scientists agree that the sun can influence climate, conclusive evidence that it is causing the earth’s warming trend is missing.

Considerable uncertainty also surrounds future warming trends. The IPCC now projects that global temperatures could rise as little as 2.5 degrees or as much as 10.5 degrees by 2100, or double the range it predicted five years ago. Skeptics insist that the IPCC’s computer-generated projections exaggerate possible temperature change because the underlying mathematical models do not capture the complex interaction of natural feedback loops, such as increased cloud formation, that could dampen temperature increases.

# Global Warming

tional cooperation, and the details of the Kyoto Protocol.

## Is the Climate Changing?

No one disputes the basic theory that underlies concerns about global warming. If the atmospheric concentration of heat-trapping gases increases sufficiently, the earth’s temperature will rise. Equally indisputable is that humanity is spewing heat-trapping gases into the atmosphere. The main culprit is carbon dioxide released by burning fossil fuels. Its atmospheric concentration has risen from 270 parts per million in 1750 to 368 today. Methane gas, which has more than doubled in concentration over the past three centuries as the result of cultivating rice, raising livestock, and exploring for oil, is a secondary factor, as is nitrous oxide, a byproduct of burning fossil fuels and producing nylon and fertilizer. And human innovation has injected synthetic gases, such as perfluor-

warming globe. Ocean temperatures have risen, which is significant because water covers most of the earth’s surface. Arctic sea ice is melting each year by an area equivalent to the combined size of Maryland and Delaware. Many lakes and rivers in the Northern Hemisphere freeze a week later—and melt 10 days earlier—than they did 150 years ago. Glaciers from the Rockies to the Alps to Mount Kilimanjaro are rapidly shrinking.

In a sign of the complexity of the global warming debate, agreement that the earth is hotter merely shifted discussion to a new question. Is human activity responsible? Mounting evidence says yes. The UN-sponsored Intergovernmental Panel on Climate Change (IPCC) concluded with 60–90 percent confidence early this year that the observed warming “has been due to the increase in greenhouse gas concentrations.” A White House-commissioned study by the National Academy of Sciences essentially confirmed this conclusion. But skeptics insist that the observed warming falls within the earth’s natural

How much and how fast temperatures rise matters. Small, slow temperature increases make it easier for humans to adapt. (Whether plants and animals could is another matter.) Large, rapid temperature changes, however, could swamp adaptation. Even these statements are guesses. No one knows how higher temperatures will affect the earth’s climate. Small changes might disrupt weather patterns and devastate agricultural production. Conversely, higher temperatures might turn frozen wastelands into productive farmland.

## Why Cooperation Is Hard

Uncertainty about the causes and consequences of global warming greatly shapes the debate over climate change. It is hard to motivate countries to act when no one knows whether the problem is big or small, imminent or distant. In this respect, global warming differs from ozone depletion. There scientists agreed the problem was real and immediate, and the result was the successful 1987 Montreal Protocol on Substances

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By James M. Lindsay

# Heats Up

## Uncertainties, Both Scientific and Political, Lie Ahead

that Deplete the Ozone Layer. Uncertainty also explains why global warming has not yet emerged as a burning issue in the United States, which with only 5 percent of the world's population emits roughly 25 percent of its heat-trapping gases. Few Americans list global warming as a top environmental concern—drinking water pollution and toxic waste rate far higher—and by a two-to-one margin they say it will not pose a

serious threat during their lifetime.

Two other factors complicate efforts to combat global warming. One is cost. Protecting the ozone layer required replacing a few damaging products with existing substitutes. By contrast, combating global warming requires diminishing the world's appetite for fossil fuels. That is a difficult task. And the greater the emissions reductions needed, the greater the cost.

The second problem is that global warming poses a collective goods dilemma. Countries know that pursuing virtuous global warming policies makes little sense if no one else follows suit. Any individual reduction on their part will be swamped by emissions from others. Indeed, going first could be economically lethal, driving up a country's production costs and pushing jobs abroad. So everyone has an incentive



to wait for someone else to take the lead.

Fairness issues exacerbate the collective goods problem. Developing countries insist that industrialized countries should bear the burden of cutting emissions. They grew wealthy spewing the gases that now endanger the planet. Making everyone curtail emissions would force developing countries to clean up a mess they didn't create and potentially keep them poor by denying them the right to pollute their way to wealth.

By the same token, though, emissions of heat-trapping gases from developing countries will soon exceed those from industrialized countries, largely negating the benefits of emission cuts in richer nations. Moreover, developing countries have the most to lose from global warming. They have fewer resources to adapt to climate change, and their economies rely more on agriculture; hence, they are potentially more vulnerable to changes in the weather.

### The Kyoto Protocol

Concerns about cost and fairness dominated the negotiations over the Kyoto Protocol. Signed in December 1997, the treaty embodied two key decisions. First, the United States and 37 other countries pledged to cut their emissions of carbon dioxide and five other heat-trapping gases between 2008 and 2012 to an average of 5 percent below what they had been in 1990. Individual country targets varied. The United States pledged to cut its emissions to 7 percent below 1990 levels, Japan to 6 percent below, and the European Union to 8 percent below.

Second, Kyoto left it up to developing countries to decide whether to reduce their greenhouse gas emissions. The Clinton administration had wanted language requiring developing countries to curb emissions. That position reflected political reality as much as any-

thing. In July 1997 the Senate voted 95-0 to oppose any agreement exempting developing countries from emission reductions. Despite this warning, developing countries successfully fought off even language that urged voluntary compliance. (China led this fight even though it apparently reduced its emissions in the late 1990s by overhauling its energy infrastructure to reduce urban air pollution. Beijing worried that any limits would constrain its future economic growth.)

The developing countries exemption was just one of the problems plaguing the Kyoto Protocol. At the broadest level, the treaty did not solve global warming. With developing nations unrestrained, worldwide emissions of heat-trapping gases will rise, albeit somewhat more slowly, even if the treaty's terms are fully implemented. Moreover, the negotiators reached agreement by postponing decisions about the most controversial issues. The protocol, for example, omitted the operational details of its proposed emissions trading program—which in theory would hold down the cost of compliance by letting firms and countries that can't meet

their emissions targets buy credits from those that can. The treaty was similarly vague in its provisions allowing countries to claim credits for "carbon sinks"—the ability of trees and soil to absorb carbon dioxide. Such a provision could encourage countries to preserve and extend forests; it could also be used to let countries hit their emissions targets without changing their behavior.

Fleshing out these details proved difficult. Carbon sinks featured prominently when the parties convened in The Hague in November 2000. The European Union accused the United States, Japan, Canada, and Australia of seeking to use them to avoid taking painful steps to cut domestic emissions. Efforts to find an acceptable

compromise failed and negotiations collapsed.

### "Kyoto Is Dead"

The deadlock at The Hague dumped the global warming issue squarely into the lap of the incoming Bush administration. During the campaign Bush had criticized Kyoto for exempting the developing countries. But he had also pledged to curb carbon dioxide emissions from power plants, prompting speculation he would seek to mend, not end, Kyoto.

That speculation proved wrong. In March, Bush abandoned his pledge to cut carbon dioxide emissions. "Our economy has slowed down," he said. "We also have an energy crisis and the idea of placing caps on carbon dioxide does not make economic sense." When European officials asked what this meant for Kyoto, national security adviser Condoleezza Rice said bluntly: "We will have to find new ways to deal with the problem. Kyoto is dead."

Rice's comment produced howls of anger from European capitals, where global warming has greater political salience. Lost in the din of denunciations, however, was the fact that the Kyoto process would be troubled even if Bush had followed Bill Clinton's approach of trying to fix its flaws. U.S. greenhouse gas emissions rose substantially over the course of the 1990s and are continuing to increase. As a result, reaching the Kyoto target could require the United States to reduce its emissions 20 percent or more, a perhaps impossible task to accomplish at a reasonable cost in less than a decade.

Nor have most other countries distinguished themselves on global warming. With the exception of Germany and Great Britain, every member of the European Union saw its emissions rise during the 1990s. Germany's reduced greenhouse emissions largely reflect a geopolitical quirk—it shut down wildly inefficient plants it inherited from East Germany. Great Britain's reductions came about because reforms introduced in the early 1990s shifted energy usage from coal to natural gas and nuclear power. This spotty record led some

Although the White House has been vocal about Kyoto's shortcomings, it has been quiet about what should replace it.

White House officials to complain that the Europeans were secretly delighted that Bush had declared Kyoto dead. They could denounce American arrogance but skip the tough steps needed to combat global warming.

### Now What?

Much to the Bush administration's surprise, its opposition did not kill Kyoto. The European Union fought to keep the treaty alive, and in Bonn in July it reached agreement with Japan, Australia, and Canada on the issues that had derailed the talks at The Hague. Ironically, the Bonn agreement incorporated many of the changes the Clinton administration had sought, including allowing credits for carbon sinks. These changes make it easier for countries to hit their emissions targets; initial assessments indicate that if Kyoto is fully enacted it will reduce emissions 2 percent below 1990 levels for the participating countries.

Whether the Bonn agreement will work remains to be seen. The pact must be ratified by the legislatures of at least 55 countries, responsible for producing more than 55 percent of the industrialized world's emissions, before it can go into effect. National legislatures may flinch when they see the bill for carrying out the pact.

But for the moment at least Bonn clearly leaves the United States isolated. Kyoto's supporters hope that this isolation will eventually force Washington to rejoin the treaty, which would substantially improve its chances for success. The White House is unlikely, however, to reverse course suddenly. Bush has attacked Kyoto so publicly that a reversal would be seen as a surrender, hardly an attractive option to a president who takes pride in standing his ground.

Instead, the Bush administration is far more likely to craft its own response to global warming. What might such an approach look like? That is hard to say. Although the White House has been vocal about Kyoto's shortcomings, it has been quiet about what should replace it. Bush has pledged to spend more to study climate change but not much else.

Bush's aides hint that any plan the administration devises will emphasize technological innovation and voluntary reductions. Both could certainly play a useful role. In recent years, some companies—either to gain favorable publicity, head off stringent emission regulations, or improve their balance sheets by using resources more efficiently—have adopted new technologies and otherwise moved to reduce their emissions. Such efforts help explain why the emission of heat-trapping gases from industrial sources fell 2 percent in the United States in 1999 even as they grew 1 percent for the country as a whole. At least 18 states have taken steps on their own to discourage greenhouse gas emissions. And some individual cities and towns have reduced emissions with low-tech policies such as establishing exclusive bus lanes, synchronizing traffic lights, and buying vehicles that emit less carbon dioxide.

But technological innovation and voluntary efforts alone will not be enough. The rate of technological innovation is a function of the demand for it, which will be low in the absence of government regulation. And most companies are declining to cut their greenhouse gas emissions voluntarily, either because it will raise their production costs or because they believe that cutting emissions now will only mean stiffer emissions targets in the future.

As a result, federal regulation is necessary for making substantial reductions in U.S. greenhouse gas emissions. This could entail steps such as raising fuel economy standards for cars and trucks—which produce roughly one-third of U.S. carbon dioxide emissions—and requiring firms to reduce emissions of methane and rare industrial gases. It could also entail setting up a domestic emissions trading program or even a regional one that involved Mexico and other Latin American countries.

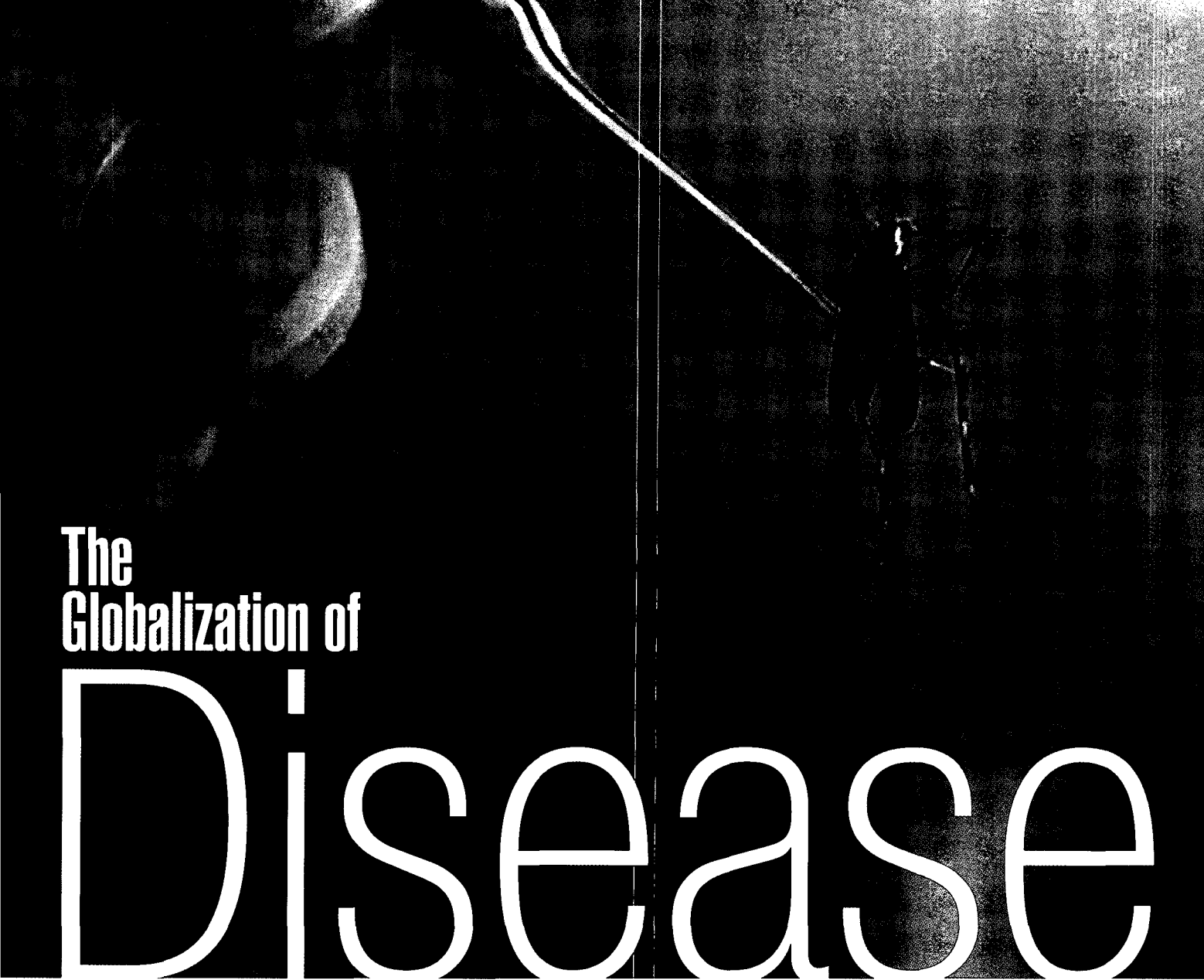
Creating a two-track system in which the United States tackled global warming in its own fashion might not be ideal, but it would not necessarily deal Kyoto a fatal blow. Indeed, the two tracks could reinforce each other. Success in the Kyoto process could keep up pressure on Washington to act, and action in Washington could discourage Kyoto's signatories from balking at carrying out their commitments. And having separate tracks would not preclude joint efforts to persuade developing nations to control emissions or hammer out a successor to Kyoto that merges the two tracks.

The sticking point in all this is that a two-track process can succeed only if the United States is committed to reducing its emissions. It is doubtful we will see that commitment any time soon. Congress reacted to the Bonn agreement with a flurry of interest in global warming, and it may eventually enact some initiatives into law. But a comprehensive and far-reaching strategy capable of reducing emissions substantially is unlikely to pass without President Bush's leadership. And all signs are that he remains firmly opposed

to any emissions reduction effort that imposes significant costs on the U.S. economy.

The Bush administration's resistance to moving more aggressively on global warming goes over poorly in foreign capitals, but it might fare better with the American people. While two out of three Americans say the White House should combat global warming, fewer than half say they would pay a quarter more for a gallon of gasoline to make it happen. The fallout from Bonn might persuade Americans to open their wallets, but that is by no means guaranteed. Unfortunately, by the time the uncertainty surrounding global warming disappears, it may be too late to do much about it. ■

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The  
Globalization of

# Disease

When Congo Sneezes, Will California Get a Cold?

By Erica Barks-Ruggles

In a bold speech in early June marking the 20th anniversary of the first report of HIV/AIDS, United Nations Secretary General Kofi Annan called on the private sector as well as donor governments to contribute to a \$7–10 billion global trust fund to combat HIV/AIDS, malaria, and tuberculosis. His call for action to the business community was based on a sensible dose of “enlightened self-interest.”

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Annan warned that AIDS leaches profits out of economies and businesses and raises new barriers to development and economic growth. He cautioned that the widening gaps between wealthy and poor, which AIDS and other diseases are expanding, could accelerate the growing backlash against globalization. While global markets have created unprecedented economic opportunities and growth, the benefits have not been equally distributed, and the risks—especially the health risks—of an increasingly interlinked and interdependent world have not been thoroughly considered.

As trade, travel, and food sources become more global, humans, animals, and plants are being exposed to myriad new and ever more resilient diseases. Increasingly antibiotics fail to subdue multi-drug-resistant forms of diseases, such as tuberculosis, that they once nearly eliminated. Although there is no agreement on what is causing this trend—theories include climate changes, manipulation of plants and animals, genetic engineering, increased mobility of humans and food sources, and terrorism—the fact remains that disease threats are increasing. Officials in the United States and the international community need to begin containing the threat that diseases and pests pose in an increasingly globalized world, by putting into place reliable, cooperative, and responsive systems to anticipate, prevent, detect, and react to outbreaks—both those caused inadvertently and those caused by terrorist attack.

### Old and New Disease Risks

In December 1999 the National Intelligence Council released an unprecedented unclassified assessment of the threat that new and reemerging diseases pose to the United States and other countries. The report highlighted a few key facts. First, infectious diseases are a leading cause of death worldwide, accounting for one-quarter to one-third of all deaths globally in 1998. Second, 20 diseases that had been in decline reemerged or spread geographically between 1973 and 1999, including new multiple-drug-resistant strains of tuberculosis, malaria, and cholera. And third, 29 previously unknown diseases were identified in the same period, including HIV/AIDS, Ebola, and hepatitis C. There are no cures for many of these diseases.

The United States, despite its sophisticated medical care and infrastructure, has not been immune to this trend. Between 1980 and 1999, deaths due to infectious diseases doubled. Multiple-drug-resistant forms of TB and staphylococcus alone kill more than 14,000 Americans annually. HIV/AIDS is experiencing a resurgence, especially among minorities and women. In 1999, new HIV infections rose from 40,000 annually to 46,000, according to the Institute of Medicine. However, only 70 percent of Americans infected with HIV know their sero-status, and many who do know are failing to protect and educate themselves. Unprotected sex in some high-risk gay communities has risen to 50 percent, and a survey released by the Centers for Disease Control (CDC) in December 2000 found that 40 percent of the 5,600 Americans questioned believed that AIDS could be transmitted by sharing a glass with or being coughed on by an infected person.

Though some lessons have been learned from the struggle against HIV/AIDS, the U.S. health care system is ill equipped to deal with large-scale outbreaks of new or rare diseases. As evidenced by the outbreak of West Nile virus in New York in August 1999, an unknown and relatively weak virus can easily gain a foothold and quickly spread. Although only 82 people had been infected by the end of 2000 and only 8 had died, more than 4,000 birds and 59 horses had tested positive or died from the virus. Even though the CDC alone spent nearly \$10 million in 1999 and 2000 to contain West Nile virus, it spread from 3 states in 1999 to 12 states and the District of Columbia by the end of 2000, and its spread continues.

### Crops and Animals at Risk

The risks posed by new and reemerging diseases are not limited to humans. Crop and livestock diseases can exact steep health and economic costs. As seen during recent disease outbreaks in Europe, global trade's transfer of products, animals, and people around the world can speed the spread of infection. The British government anticipates paying around 1 billion pounds to farmers in compensation for culling animals potentially exposed to foot-and-mouth disease. With large parts of the countryside closed to both foot and vehicle traffic, losses to Britain's tourism industry are expected to top 5 billion pounds. More than 4.5 million animals in Britain have been slaughtered, and others have been killed in France, the Netherlands, and other European countries where the disease spread. Likewise, in Britain, bovine spongiform encephalopathy (BSE or "mad cow" disease) killed nearly 200,000 cattle. Nearly 5 million more were preemptively slaughtered. As of last November, 90 people had died from variant Creutzfeldt-Jakob Disease (vCJD), a malady linked to eating animals infected with BSE. By December, the cost of BSE in the United Kingdom alone was estimated by the British government to exceed 1.5 billion pounds.

The United States is the world's largest food producer and exporter. Agricultural products contributed more than \$97.2 billion to the U.S. economy in 1997, and the Agriculture Department estimates that farm exports alone contributed more than \$49 billion to the U.S. economy in 1999. The potential for harm to the nation's agricultural industry from alien pests and diseases is enormous.

### Lethal Tourists and Cargo?

According to the Agriculture Department, the number of passengers traveling to the United States increased from 27 million in 1984 to 66 million in 1996. More than 400 million U.S. border crossings were recorded in 1996, and in 1998 more than 422,000 cargo-bearing aircraft were inspected on landing in the United States. This flood of people and goods has exacerbated the already difficult job of controlling who and what enters and exits the nation. Each incoming passenger and cargo load could harbor new and deadly diseases or pests. With the increasing globalization of American food sources, including snow peas from Guatemala, apples from Chile, and mangoes from India, the threat from diseases and pests to

American crops and people is growing. According to the Department of Commerce, farm imports into the United States increased 65 percent between 1991 and 1999, and that trend is expected to continue as the food supply becomes more global.

In addition, invasive species—both plant and animal—that are controlled or balanced in their native environments increasingly threaten indigenous species in the United States. Conservation researchers cited by the Agriculture Department have found that invasive alien plant infestations cover more than 100 million acres in the United States and are spreading at the rate of 14 percent a year. The department estimates that its agents intercept more than 1.8 million illegal agricultural products a year, stopping more than 52,000 plant and animal pests and diseases from entering the United States. But inspecting bags and cargo and destroying their contents may not keep out viruses and bacteria. Carried by humans, animals, plants, soil, foodstuffs, water, and the very planes and ships that bring foreign people and products to the United States, some diseases do not wait to pass inspection.

### **Are Diseases Gaining the Upper Hand?**

Scientists working on human, animal, and plant diseases all agree that the number of new diseases, the increasing resistance of known diseases, and the rapid geographic spread of both are on the rise. What they do not agree on is why. Theories include climate changes, human manipulation of plant and animal food and genetics, increasing travel of humans and some animals (especially animals used for food), as well as deliberate introduction. No one theory has been proven or eliminated, but policymakers must take seriously the threat posed by the spread of disease to human, plant, and animal health, as well as the implications for economies and food security. Putting in place prevention, mitigation, and disaster-response systems now may help avoid a catastrophe later.

making, and management needed to contain and control the spread of disease. When the scenario ended (after four days), between 950 and 2,000 people had “died” and the disease had spread throughout the United States and to other countries.

While being prepared for a possible terrorist attack is important, the more insidious threat to the American economy and the safety of its citizens is the daily, routine transportation of goods, products, and people, along with the diseases and pests they carry, across borders. Constructing robust, multi-agency systems to identify, eliminate, and control “normal” disease and pest outbreaks will lower that quotidian threat, while at the same time building a foundation of skilled individuals and systems to help prevent and respond rapidly to a potential biological terrorism event.

### **What Needs to Be Done?**

Recognizing and assessing U.S. vulnerabilities in protecting against, containing, and treating diseases is the first step toward building a comprehensive system to lower the risk of disease outbreaks. The Denver exercise, for example, was part of an ongoing training effort that exposed the need for greater coordination in decisionmaking, communication, and emergency relief efforts. The West Nile virus has likewise proved the value of increased training and coordination among health, animal, and plant disease authorities. After people started falling sick from a mysterious encephalitis infection, animal control authorities began investigating increased crow deaths in the same region. They discovered that crows also die from the West Nile virus and may facilitate its spread. The Agriculture Department has begun to assess its own infrastructure and training gaps, and its Animal and Plant Health Inspection Service is now constructing an emergency management center to handle disease outbreaks in U.S. plants and animals.

These efforts, however, are but the first steps to put in place a strengthened system to detect and deter both deliberate

## **As seen during recent disease outbreaks in Europe, global trade's transfer**

### **Is the United States Prepared?**

What would happen to America's economy and health care infrastructure if a virulent and communicable human, animal, or plant disease entered the United States and gained a foothold? The worst-case scenario would be the introduction of a devastating disease by a terrorist group.

In May 2000, three mid-size U.S. cities (Portsmouth, New Hampshire; Denver, Colorado; and Washington, D.C.) took part in a large-scale exercise spanning several days to see how local, state, and national emergency systems would respond to three potential disasters—nuclear, biological, and chemical attacks by terrorists. The biological attack scenario, played out in Denver, showed that most local and regional authorities, even those who had been specially trained, were underprepared to deal with a large communicable disease outbreak and were overwhelmed by the complex coordination, decision-

terrorist attacks and unintentional transmission. Increased training in diagnostic techniques, better communication networks between and among health and emergency response personnel and the scientific community, and increased resources for enforcement, protection, prevention, and education programs are needed.

### **Beyond America's Borders?**

The threat to the United States does not, however, end at the border. Many diseases originate overseas. The EU, the United States, and other concerned nations should begin to work with international organizations on a range of efforts to identify, contain, and control new and drug-resistant diseases in humans, animals, and plants, and to mitigate the damage they cause. In the long term, an international effort should include agreements on disease identification, containment, and treat-

ment, and standard protocols and cost-sharing structures to ensure that poor and rich countries alike can control outbreaks of the most deadly diseases. A global surveillance network to help identify and eliminate diseases in their countries of origin should also be considered. Cooperative efforts must also be undertaken to construct functioning primary health care systems and infrastructure in developing countries so that diseases originating in the tropics can be identified and eradicated before they spread. Such an effort, through improving access to primary care and vaccinations, would improve the health of children and their chances of obtaining an education. Better education, better health, and other opportunities could spur development and economic growth over the long term.

Short-term international efforts should focus on immediate threats and build foundations for long-term efforts. World health leaders could set up internationally recognized and endorsed standard protocols for human vaccine development and testing for HIV/AIDS, malaria, and other killer diseases, along with systematic plans for comparative trials of multiple vaccines against them. They should



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## Products, animals, and people around the world can speed the spread of infection.

commit to the rapid eradication of diseases that have not yet developed resistance to standard treatments, including polio, measles, river blindness, and Guinea worm. (Polio cases have fallen 99 percent in the past 13 years since the launch of the Global Polio Eradication Initiative, but polio must be eliminated in the 20 countries where it still exists.) Public-private partnerships could accelerate development of new disease treatments. (Some possibilities include tax incentives to encourage companies to manufacture medications for diseases that affect primarily poor countries, and trust funds to guarantee a profit for the manufacturers of medicines to treat third-world diseases.) International intellectual property rights regimes should be reformed to ensure that essential drugs and medicines are more affordable for all people. Genetically diverse plant and animal species should be preserved to increase the genetic pool on which researchers can draw to

find disease-resistant qualities. Scientists, medical professionals, and disease specialists should have better access to distance learning, training, and exchange programs to increase understanding of and best treatments for diseases.

The fight against diseases was largely considered over as recently as the 1970s, but as fast as health professionals learn to treat them, diseases are fighting back. Increased travel and trade are accelerating these trends. Winning the fight against disease and protecting the world's health, economies, and food supplies will require coordination, cooperation, and resources. As has been shown time and again during vaccination campaigns in war zones, even people trying to kill each other will agree to a temporary cease-fire to save their children from disease. If the world can build on that model of cooperation, perhaps there is a chance to win this war—and in the process create the hope of cooperation in other areas as well. ■



# Terrorism

## Goes Global

### Extremist Groups Extend Their Reach

**D**espite the innumerable and oft-discussed ways in which we are vulnerable to them, terrorist attacks are rare. An attack occurs only when a perpetrator vile enough to commit it, a motive strong enough to rouse him to action, a target germane to the motive, and the wherewithal to act all converge at the same place and time. It follows that anything that raises the odds that these four factors will indeed come together will increase the incidence of terrorism. Several trends associated with globalization—the greater ease of moving people, resources, and information across borders, the greater transnational reach of institutional structures—thus have sustained or worsened international terrorism even as

other trends, such as the precipitous decline of Marxist terrorism at the end of the Cold War, have tended to lessen it. In today's globalizing world, terrorists can reach their targets more easily, their targets are exposed in more places, and news and ideas that inflame people to resort to terrorism spread more widely and rapidly than in the past.

Today's globalized terrorism is exemplified by Ramzi Ahmed Yousef, the mastermind of the 1993 bombing of the World Trade Center and later an abortive plot to bomb a dozen U.S. airliners out of the sky in the Far East. Of Palestinian extraction and raised in Kuwait, Yousef (who is now serving a 240-year sentence in a U.S. prison) was educated formally at a technical institute in the United Kingdom. He received his terrorist education at camps in Afghanistan. He came to the United States in September of 1992, organized

the attack on the World Trade Center, and left the day the bomb went off. He later surfaced in Manila, where he put together the airline plot. When he was finally arrested in Pakistan in 1995, he was planning more terrorist operations elsewhere in Asia.

#### **Globetrotters and Infrastructures**

Terrorism's reach is now worldwide in two respects. First, individuals such as Yousef travel widely. The same easing of border controls—especially notable in Europe—that has been a convenience to businessmen and tourists has also made it easier for terrorists to reach tempting targets and willing collaborators. Globetrotting by peripatetic terrorists has made ad hoc cabals, as distinct from large, well-known groups, a larger part of international terrorism. The group that struck the World Trade Center, for example, did not exist until its members, foreigners of diverse nationalities, coalesced in New York for that one attack. That they belonged to no terrorist group when they entered the United

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U. S. Ambassador Prudence Bushnell is evacuated following a terrorist bomb explosion outside the U.S. embassy in Nairobi, Kenya, on August 7, 1998.

Worldwide

States underscores how the mere movement of highly discontented people can bring about the malignant combination of ringleader, collaborators, and target, despite passport checks at international borders.

Second, terrorists have extended their reach by building globe-circling infrastructures. Lebanese Hizballah, whose presence now reaches six continents, has led the way. But other terrorist organizations, with agendas as diverse as the Palestinian group Hamas or the Sri Lankan Liberation Tigers of Tamil Eelam, maintain cells far from the lands where their goals and grievances are focused. The infrastructures extend the geographic options for attacks—witness Hizballah's bombings of Israeli-associated targets in Buenos Aires in the early 1990s—but more often they further recruitment, fund-raising, movement of materiel, and other support functions. The overseas cells grow up most often near sympathetic expatriate communities (such as the Shia Lebanese in the border region of Argentina,

Brazil, and Paraguay—the heart of Hizballah's activity in South America), but they also settle elsewhere in the Western world simply to take advantage of superior civil liberties, social services, transportation, and communications.

The breakdown of controls in the former Soviet empire has complemented the larger global trends by opening up even more operating areas for transnational terrorists, especially Middle Eastern extremists. The emergence of the conflict in Chechnya as a new jihad has accelerated this trend.

The greater mobility of terrorists and the proliferation of terrorist cells have blurred organizational lines. International terrorism has become the work less of distinct and well-defined groups than of networks (of individuals and of ill-defined and constantly shifting groups). Cells often contain members of more than one nationality, with affiliations to more than one group, and groups cooperate in procuring false documents and moving operatives. The blurring of organizational lines has

made it increasingly difficult to determine responsibility for terrorist acts. The networks make it plausible to describe much that goes on in the terrorist world as “linked to” this or that group or leader (such as Usama bin Ladin), but linkage does not necessarily mean operational control.

### The Electronic Connection

Advances in communications and information technology have facilitated worldwide terrorist operations just as they have normal commerce. Satellite phones are now standard equipment for terrorist leaders, who can remain otherwise inaccessible in a place such as Afghanistan while influencing events thousands of miles away. Terrorists also use the Internet for long-distance operational direction, with some larger groups using it for propaganda and proselytization as well.

Terrorist use of the Internet has sparked two concerns. The first is that the Internet could provide information on biological, chemical, or other

unconventional agents that could be put to terrorist use. The second is that terrorists could use it to disable electronic infrastructures. Both are legitimate concerns, although probably neither threat is as great as is commonly feared. Terrorists no doubt have found useful information on weapons on the Internet, but little they could not have picked up elsewhere. And the few international cyber-terrorism attacks so far have been crude and of little consequence. Information technology's biggest impact on terrorists has involved the everyday tasks of organizing and communicating, rather than their methods of attack.

### Accessible and Visible Targets

Through their personal mobility and their far-flung networks, international terrorists can reach more potential targets than ever before. They can strike wherever targets are vulnerable—for example, the U.S. embassies in Nairobi and Dar es Salaam—rather than in the lands, such as the Middle East, where their grievances arose.

Terrorists' targets are also more mobile—and virtually ubiquitous. Foreign terrorists wishing to strike Americans have not only the traditional fixed targets such as U.S. embassies but also an increasing nonofficial American presence overseas—from the widespread commercial activities of U.S. businesses to individual Americans living or traveling abroad. U.S. missionaries in Colombia, trekkers in Kashmir, and car dealers in Greece have all been hit by terrorists in recent years.

The increasing American presence overseas has also stoked resentment of Uncle Sam's large footprint on the rest of the world, raising the risk of extreme responses. The marketing of American goods abroad, for example, results not just in commercial facilities that may become targets, but in a more diffuse dislike of what is seen as an American cultural and economic intrusion.

The growth of mass media has made news available to more people in more countries, heightening awareness of the American "intrusion," and also speeding and spreading awareness of controversial, inflammatory events that might



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impel some people to violence. New Arab satellite television stations such as the Qatar-based Al-Jazeera, for example, now quickly inform mass audiences in the Middle East of details of partisan clashes that would once have reached far fewer people far more slowly.

Terrorists can also exploit the expanded capabilities of the mass media themselves. Twenty years ago the main media-related issue of terrorism was how coverage of hostage situations might help terrorists achieve the impact they sought on Western populations. Today, terrorists are apt to think at least as much about how the media reach their own constituents—the mostly non-Western people who share the terrorists' grievances and among whom they seek at least tacit support for their operations. Bin Ladin is noteworthy at least as much for his skill in manipulating the media (particularly through taped television interviews) to reach Muslim audiences as for his expertise as a terrorist financier and operational commander.

### Plentiful, But Not Always Usable, Data

Several developments mentioned above are double-edged swords for terrorists. Modern electronic media, for example, have on occasion become a source of valuable insights for counterterrorist forces. The more terrorists move information, money, and themselves around the globe, the more data are available on

what they are up to. But the practical difficulties of collecting and exploiting that data are greater than commonly realized.

Consider international travel. The data accessible to immigration officers at ports of entry and to commercial air carriers on international routes may seem a potential trove of information on the movements of international terrorists. There have been proposals to "mine" these data for counterterrorist purposes, as well as legislation to require the U.S. Immigration and Naturalization Service to keep records on all aliens entering the United States. The problem begins with the sheer volume of data. Each year more than a half trillion people enter the United States, two-thirds of whom are aliens. Duplicate names, the use (by terrorists, among others) of false names, and the inconvenient fact that many people it would be good to catch are not yet on record as having committed terrorist crimes are major challenges, no matter how sophisticated the automated search techniques used. The people and institutions who must furnish the data may withhold it because of resource constraints, suspicions, or other reasons. Indeed, the plan to catalog data on aliens entering the United States encountered resistance not only from Canada but from U.S. border state representatives because of concerns about back-ups at crossing points. Given that track record, foreign sources of data are apt to be even more problematic. In the end, intercepting terrorists who cross borders to conduct attacks will always depend in large part on luck and alert border officers, as it did when an Algerian named Ahmed Ressam was arrested in December 1999 while bringing explosives into Washington state from Canada.

Information collected from international travelers in a more targeted way, however, can help the counterterrorist effort. The U.S. intelligence community's Tipoff system, for example, relays sanitized information about terrorists derived from intelligence to immigration officers at points of entry to the United States and to consular officers issuing visas at U.S. embassies world-



wide. Since its inception several years ago, the program has resulted in more than 500 suspected terrorists being denied visas, scores more being denied entry at border control points, and several being arrested.

Flows of money pose similar problems in acquiring and exploiting terrorist-related data. High hopes have often been expressed for countering terrorism by interdicting its financial "lifeblood." But the use of false names on accounts, the commingling of funds used for terrorism with those used for legitimate purposes (particularly in certain non-governmental organizations that facilitate, wittingly or unwittingly, the activities of terrorists), and other practical problems often dash those hopes. When terrorists move money internationally, they usually avoid the Western banking system. Most often they avoid any banking system, instead using informal money-changing arrangements (common in the Middle East) or physically moving currency.

Another reason the financial target is elusive is that it is small. The business of killing someone or blowing something up is far less expensive than transnational enterprises such as narcotics trafficking or arms smuggling. Terrorists, unlike other global criminals, do not need to launder lots of cash.

The terrorist-connected money that does flow across international borders is also hard to interdict because few other countries have the institutions (or the laws) that the United States does for freezing or seizing illicit assets. Even European governments lack an equivalent to the Treasury Department's Office of Foreign Assets Control. The closest counterpart is sometimes only a single official in a finance ministry, justice ministry, or central bank.

### The Good Guys Going Global

The obvious lesson to draw from the increasingly transnational character of terrorism is that counterterrorist efforts must be as globalized as the terrorists themselves. This is far more than a matter of legal authorities or even the geographic reach of U.S. law enforcement or security services. The United States

has asserted extraterritorial jurisdiction over terrorist crimes since the 1980s, and its intelligence services have always operated worldwide. If counterterrorist activities are to go global, it will require a broad outlook in planning defensive measures against terrorism. It will also mean enlisting the cooperation of foreign partners in going after terrorists offensively.

Defensively, the key point is that terrorists go where they see the opportunities, thus undermining distinctions between high- and low-threat areas. Relaxed security reflecting a belief that the threat is low offers terrorists an opportunity that may well increase the threat. The State Department's Bureau of Diplomatic Security has deemphasized previous high-threat, low-threat distinctions and considers the entire world as a high-threat area in planning the security of U.S. diplomatic missions.

Offensively, the principal goal should be to disrupt worldwide terrorist infrastructures. The best way to prevent terrorist attacks within the United States is to impede foreign terrorists long before they plan such attacks or travel to carry them out. That cannot be done without the help of foreign governments. Their security and police services, not those of the United States, must do most of the work of investigating, arresting, confiscating, and otherwise obstructing the work of international terrorists.

Nevertheless, there are limits to what counterterrorism can accomplish, and the vulnerabilities associated with globalization help to set those limits. For the United States, being an especially attractive and exposed target for terrorists is the downside of being the premier power—and the most prominent free society—in an integrated world. The free trade and free travel that undergird this country's wealth and liberty also make it the prime terrorist target. Its position as leader of the West and the only remaining superpower—at a time when Western cultural and economic influence is greater than ever—also breeds resentments that make the United States the number one terrorist target. Terrorism will continue to be a price of superpowerdom. ■

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# WEAPONS OF MASS DESTRUCTION

In testimony to Congress last June, Defense Secretary Donald Rumsfeld joined a decade-old chorus of experts who proclaim that multiple proliferation threats are growing. Citing “some important facts which are not debatable,” Rumsfeld asserted that “the number of countries that are developing nuclear, chemical and biological weapons of mass destruction is growing. The number of ballistic missiles on the face of the Earth and the number of countries possessing them is growing as well.” To prove his point, Rumsfeld presented data that illustrated dramatic growth in the biological, chemical, nuclear, and ballistic missile threats between 1972 and 2001. ■ While Rumsfeld’s data were accurate, his characterization of the threat is not. Indeed, contrary to conventional wisdom, globalization has not led to an increased proliferation threat from weapons of mass destruction. Wrongly assuming that the threat is expanding could lead Congress to misallocate resources both within and between government agencies. As a result, an innovative and long overdue Bush administration strategy to move the world away from classic nuclear deterrence and arms control could increase the very proliferation it is trying to eliminate or manage.

*Thomas W. Graham is a consultant to the Asia Society and Lawrence Livermore National Laboratory.*

## A Changing, Not a Growing, Threat

Careful assessment of each component of the proliferation threat—nuclear, biological, chemical, ballistic missile, cruise missile, and covert-delivered nuclear, biological, and chemical—suggests that the multiple proliferation threats facing the United States in the first decade of the 21st century are finite and far smaller in scope and complexity than they were during the Cold War. Taking into account all relevant data and avoiding comparisons of static assessments from two points in time—the Rumsfeld method—makes it clear that proliferation threats are not growing, let alone expanding uncontrollably. In fact, most evidence suggests that contemporary proliferation threats are shrinking in terms of number of countries involved. It is less clear whether a very few hard-core proliferating states will continue to cooperate with each other to produce credible military capabilities and then use or threaten to use them in ways that endanger fundamental or important U.S. national security interests.

Multiple proliferation threats are changing, not growing. Because the United States is concerned not just with its existence or fundamental national security interests but with a broader set of secondary national security interests—to protect our allies, to access critical resources, to engage in global commerce—the changing nature of contemporary proliferation is serious and will stress the current national security, intelligence, and foreign policy systems in the United States in conceptual, organizational, and financial ways. Neither existing multilateral arms control regimes nor unilateral defense programs, by themselves, will well serve our national security interests in the decades to come.

While it is theoretically possible that proliferation threats could expand in the future with little warning, much depends on how the United States allocates its time and its financial and alliance resources to deal with these threats. A realistic assessment of the threat environment concludes that U.S. conventional military, intelligence, diplomatic, and counter-terrorism programs, expanded in scope at moderate expense and augmented with increased development and testing of ballistic and cruise missile defenses, are capable of dealing effectively with proliferation.

There are several other keys to winning the nonproliferation battle. One is convincing our allies that they need to continue to work with us to implement effective antiproliferation policies. Another is convincing China and Russia that their active support for further proliferation is not in their national interest. The third is the ability of the United States as a society and government to better understand and then influence isolated regimes and leaders such as Saddam Hussain and Kim Jong Il. The short history of the post-Cold War era suggests that these regimes, as immoral and power-crazed as they may be, operate on a self-preservation logic of their own that can be influenced by relatively well-targeted resources.

## Sources of Multiple Proliferation Threats

A net assessment of the national security and proliferation threats to the United States by nation states (measured on a five-point scale and taking into account capabilities, implications, and intentions) reveals a clear hierarchy of threats. As table 1 shows, one country (Russia) is a level 5 threat; one country (China) a level 4 threat; three countries (Iraq, North Korea, Iran) are level 3 threats; two countries (Libya and Syria) are level 2 threats; five countries (Taiwan, Pakistan, India, Egypt, and Israel) are level 1 threats. The remaining seven countries that have some proliferation capability (Afghanistan, Sudan, Saudi Arabia, United Arab Emirates, South Africa, Myanmar, and Cuba) are less than a level 1 threat.

Two of the level 3 threats may realistically be moved off the multiple proliferation threat list within several years. Diplomacy, innovative verification, and the right mix of incentives and disincentives could take North Korea off the list—and could thereby ease ballistic missile proliferation problems with several countries, including Iran, Iraq, Syria, Pakistan, Egypt, and Sudan. And a slow process of engagement with the democratically elected government in Iran could make it easier for “moderates” in that country to challenge Iranian hard-liners’ dominance over decisionmaking regarding intelligence; military, nuclear, biological, and chemical warfare; and terrorism. Success in those two countries could leave the United States with only one category 3 threat (Iraq) by the end of George W. Bush’s first term. That would leave only three countries—Russia, China, and Iraq—as serious level 5, 4, or 3 national security threats to the United States.

But even if one assumes that North Korea and Iran remain multiple proliferation threats and even if one widens the focus to level 5, 4, 3, and 2 threats, only seven countries (Russia, China, Iraq, North Korea, Iran, Syria, and Libya) are cause for serious proliferation concern. The multiple proliferation problem is finite, as it was in 1990. Twenty years ago, before the term globalization came into common parlance, the proliferation watch list included many more countries.

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## Untold Stories

Much of the analysis of the current multiple proliferation threat that reaches the general public is imprecise. For example, most analysts fail to specify both the degree of development of distinct capabilities and the logic behind the current worst-case assumption that concludes that countries or subnational groups are likely to use the full range of clearly distinct capabilities against the United States, our allies, or our interests.

Many warnings that the proliferation threat is large and growing also lack historical perspective. The proliferation threat is presented as having become serious and complex only after the end of the Cold War. Lost are the lessons of the evolution of effective, U.S.-led nonproliferation activities before 1990.

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Table 1. Rank Order of the Importance of Proliferation Threats to U.S. National Security

| Country              | Magnitude of Threat (5-point scale) | Proliferation Threats                                            | Characterization of the "Real" Problem                                                 |
|----------------------|-------------------------------------|------------------------------------------------------------------|----------------------------------------------------------------------------------------|
| Russia               | 5                                   | BM, BW*, CM, CW*, N, T*                                          | Disintegration                                                                         |
| China                | 4                                   | BM, BW, CM, CW, N, T*                                            | Transformation uncertain                                                               |
| Iraq                 | 3                                   | BM, BW, CM, CW, N, T                                             | May require a regime change                                                            |
| North Korea          | 3                                   | BM, BW, CM, CW, N, T                                             | Willing to negotiate away BM & N & T and perhaps BW and CW over time                   |
| Iran                 | 3                                   | BM, BW, CM, CW, N, T                                             | Evolution possible depending on domestic politics                                      |
| Syria                | 2                                   | BM, BW, CW, T                                                    | Linked to Middle East peace process                                                    |
| Libya                | 2                                   | BM?, BW, CW, N?, T                                               | Linked to Middle East peace process                                                    |
| Taiwan               | 1                                   | BW <sub>p</sub> , CM <sub>p</sub> , CW <sub>p</sub> , BM, CM, N* | Linked to one-China policy                                                             |
| Pakistan             | 1                                   | BM, BW, CW, N, T                                                 | Will react to India                                                                    |
| India                | 1                                   | BW?, CM, CW*, BM, CM, N                                          | Engaging with the United States                                                        |
| Israel               | 1                                   | BM, BW, CM, CW, N                                                | Preemption is the key threat to the United States; linked to Middle East peace process |
| Egypt                | 1                                   | BM, BW, CM, CW                                                   | Linked to Middle East peace process                                                    |
| Afghanistan          | 0.5                                 | BM, T                                                            | Weak state                                                                             |
| Sudan                | 0.5                                 | BM?, T                                                           | Weak state                                                                             |
| Saudi Arabia         | 0.5                                 | BM, CW                                                           | Strong regime, weak state                                                              |
| United Arab Emirates | 0.5                                 | BM, CM                                                           | Almost exclusive Gulf focus                                                            |
| South Africa         | 0.25                                | CM, CW                                                           | Allied with West                                                                       |
| Myanmar              | 0.25                                | CW                                                               | Weak state                                                                             |
| Cuba                 | 0.25                                | T                                                                | Domestic politics                                                                      |

ABBREVIATIONS

|    |                    |    |                  |   |           |   |                                            |
|----|--------------------|----|------------------|---|-----------|---|--------------------------------------------|
| BM | Ballistic missiles | CM | Cruise missiles  | p | Potential | * | At some stage of giving up this capability |
| BW | Biological weapons | CW | Chemical weapons | T | Terrorism | ? | Status uncertain                           |

Multilateral and bilateral nuclear nonproliferation efforts have been remarkably successful, especially given the limited resources devoted to them over 40 years. Though Secretary Rumsfeld did not mention it, 18–23 countries gave up limited or significant nuclear weapons opportunities in large part because the Nuclear Nonproliferation Treaty (NPT) regime assured them that their security would be enhanced through multilateral arms control. The nuclear nonproliferation battles that were fought and won over the past four decades to create parts of the very NPT regimes the administration wants to embrace were daunting—and much more formidable challenges than the finite proliferation threats the United States faces today. The only current proliferation threat that even comes close to those of the Cold War is the problem of Russia's uncertain control over its nuclear arsenal, materials, and technology. And in December 2000 the Department of Energy's Cutler-Baker Commission estimated that Russia's nuclear problem could be "solved" with an investment of approximately \$30 billion and improved U.S.-Russian cooperation.

Few assessments of today's terrorist-related proliferation threat remind readers that the Soviet Union, East Germany, Libya, North Korea, and other nations were active state sponsors of terrorism against U.S. interests during 1960–90. The USSR supported terrorist training camps, provided diplomatic cover for terrorists' travel, provided safe havens, and

selectively shared intelligence and technology with a wide range of violent terrorist groups. Compared to this earlier global terrorist threat, the current weapons of mass destruction terrorist threat from Osama bin Laden, Afghanistan, and Sudan seems less significant, even if it is more decentralized. We must keep in mind the FBI assessment made in 1996 and reaffirmed subsequently: "Our investigations in the United States reveal no intelligence that state supporters of terrorism, international terrorist groups, or domestic terrorist groups are currently planning to use these deadly weapons [of mass destruction] in the United States."

### Looking Ahead

Historically, countries that develop multiple proliferation capabilities do so primarily because of regional security threats and secondarily to deter U.S. intervention. Thus, dissuading potential adversaries from developing weapons of mass destruction capabilities will require as serious an approach to solving regional security problems as is being devoted to ballistic missile defenses. While the Pentagon must plan for nonproliferation failure, if the entire administration accepts this fatalistic logic and puts 99 percent of its nonproliferation eggs into the ballistic missile defense basket, this prediction will become reality. Globalization complicates the proliferation picture, but it does not mean that the nonproliferation battle is inevitably lost. ■



X-ray photos taken in  
March 1999 by Mexican  
authorities on Mexico's  
southern border with  
Guatemala.

# Heavy Traffic

## International Migration in an Era of Globalization

By Susan F. Martin

At the start of the new millennium, some 150 million people, or 2.5 percent of the world's population, live outside their country of birth. That number has doubled since 1965. With poverty, political repression, human rights abuses, and conflict pushing more and more people out of their home countries while economic opportunities, political freedom, physical safety, and security pull both highly skilled and unskilled workers into new lands, the pace of international migration is unlikely to slow any time soon.

Few countries remain untouched by migration. Nations as varied as Haiti, India, and the former Yugoslavia feed

international flows. The United States receives by far the most international migrants, but migrants also pour into Germany, France, Canada, Saudi Arabia, and Iran. Some countries, such as Mexico, send emigrants to other lands, but also receive immigrants—both those planning to settle and those on their way elsewhere.

Institutions and laws for achieving cooperation among receiving, source, and transit countries are in their infancy. The World Trade Organization oversees the movement of goods worldwide and the International Monetary Fund monitors the global movement of capital, but no comparable institution regulates the movements of people. Nor does a

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common understanding exist among states, or experts for that matter, as to the costs and benefits of freer or more restrictive immigration policies.

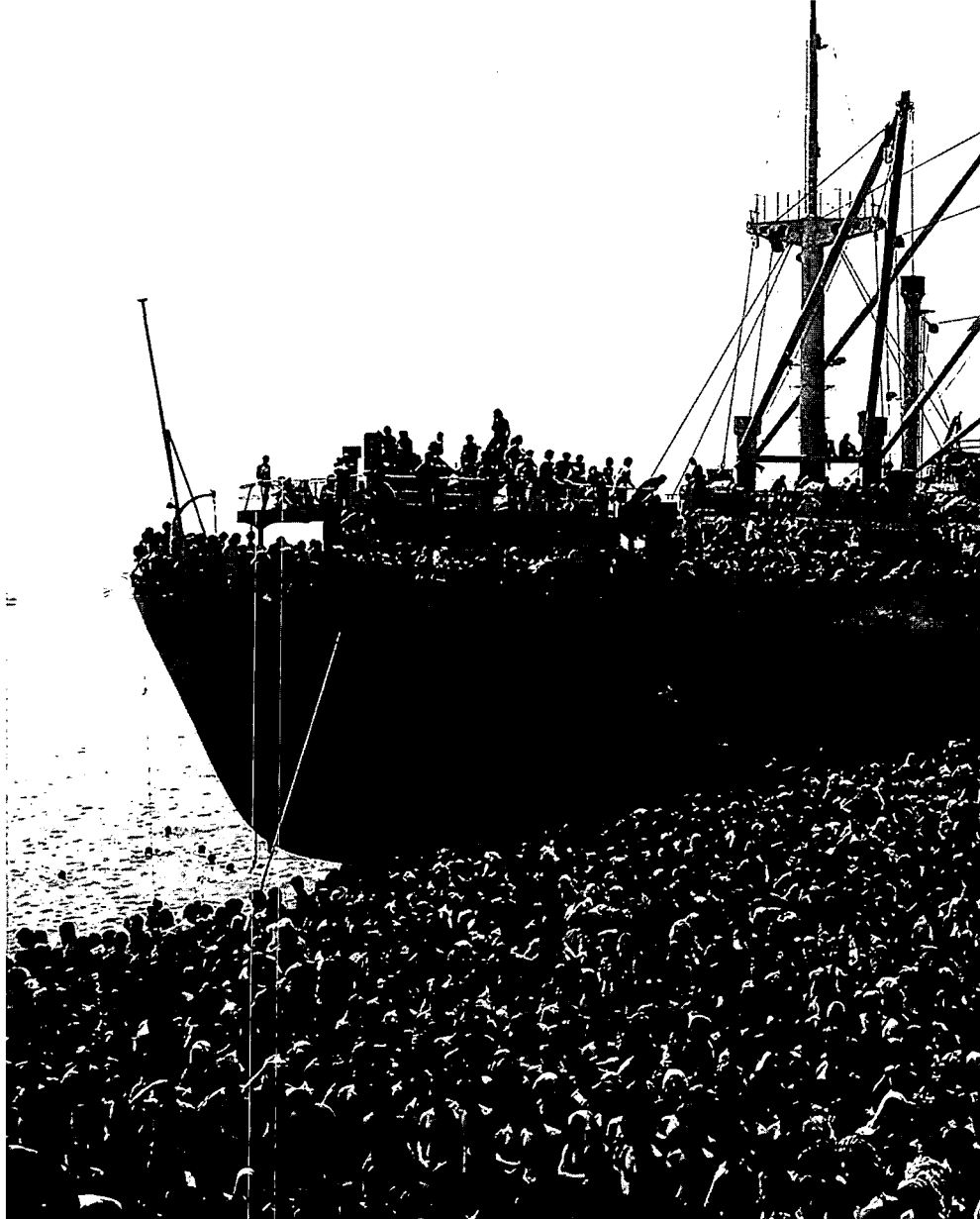
The surge in international migration, though, is prompting states everywhere to recognize the need for greater harmonization of policies and approaches. Bilateral discussions of migration issues—between the United States and Mexico, for example, over an expanded guestworker program and amnesty for unauthorized Mexican workers—have become more commonplace. During the past decade, regional groups have been set up in the Americas, Europe, East Asia, Africa, and elsewhere to allow receiving, source, and transit countries to address issues of mutual concern.

### New Trends

Economic, geopolitical, and demographic trends reinforce the need to consolidate these regional institutions and begin to develop a global regime for managing migration.

Economic trends influence migration patterns in many ways. Multinational corporations, for example, press governments to ease movements of executives, managers, and other key personnel from one country to another. When labor shortages appear, whether in information technology or seasonal agriculture, companies also seek to import foreign workers to fill jobs. Although the rules for admitting foreign workers are largely governed by national legislation, regional and international trade regimes such as the North American Free Trade Agreement and the General Agreement on Trade in Services include provisions for admitting foreign executives, managers, and professionals. Under NAFTA, for example, U.S., Canadian, and Mexican (as of 2004) professionals in designated occupations may work in the other NAFTA countries without regard to numerical limits imposed on other foreign nationals.

The growth in global trade and investment also affects source countries. Economic development has long been regarded as the best long-term solution to emigration pressures arising from the lack of economic opportunities in



developing countries. Almost uniformly, however, experts caution that emigration pressures are likely to remain and, possibly, increase before the long-term benefits accrue. Wayne Cornelius and Philip Martin postulate that as developing countries' incomes begin to rise and opportunities to leave home increase, emigration first increases and declines only later as wage differentials between emigration and immigration countries fall. Italy and Korea, in moving from emigration to immigration countries, give credence to that theory.

Geopolitical changes since the Cold War era offer both opportunities and challenges for managing international migration, particularly refugee movements. During the Cold War, the United States and other Western countries saw refugee policy as an instrument of for-

eign policy. The Cold War made it all but impossible to address the roots of refugee movements, which often resulted from surrogate conflicts in Southeast Asia, Central America, Afghanistan, and the Horn of Africa. Few refugees were able or willing to return to lands still dominated by conflict or Communism. With the end of the Cold War, new opportunities to return emerged as decades-old conflicts came to an end. Democratization and increased respect for human rights took hold in many countries, as witnessed in the formerly Communist countries of East Europe, making repatriation a reality for millions of refugees who had been displaced for years.

At the same time, rabid nationalism fueled new conflicts that have led to massive displacement in places such as





Albanian refugees seek asylum in Bari, Italy, after disembarking from the freighter *Vlora* in August 1991.

AP/WIDE WORLD PHOTOS

Demographic trends also reinforce arguments for a global regime to manage migration. Worldwide, fertility rates are falling, although developing countries continue to see rapid population growth. In most industrialized countries, fertility levels are well below replacement rates. In Europe, the average number of children born per woman is 1.4; Italy's fertility rate is 1.2. Countries with declining fertility face the likelihood of a fall in total population, leading some demographers to see a looming population implosion. Such nations can also expect an aging population, with fewer working-age people for each older person. Although immigration will not solve the problem, it will help ease labor shortages and redress somewhat the aging of the society.

Demographic trends also help explain emigration pressures in Africa, Latin America, and some parts of Asia, where fertility rates are high. Rapidly growing societies often cannot generate enough jobs to keep pace with new entries into the labor force. Growth may also cause environmental degradation, particularly when land use policies do not protect fragile ecosystems. Natural disasters also wreak havoc on densely populated areas in poor countries. Recent hurricanes in Honduras and Nicaragua and earthquakes in El Salvador and India displaced huge numbers of people from ravaged homes and communities.

### New Responses

In 1997, United Nations Secretary General Kofi Annan addressed the possibility of convening a conference on international migration and development. Upon consulting with UN member governments, he found insufficient consensus about what such a conference could accomplish and reported: "The disparate experiences of countries or subregions with regard to international migration suggest that, if practical solutions are to be found, they are likely to arise from the consideration of the particular situation of groups of countries sharing similar positions or concerns with the global international migration system.... In the light of this, it may be expedient to pursue regional

or subregional approaches whenever possible."

Since 1997, regional processes have matured. Perhaps most developed is the Regional Migration Conference, the so-called Puebla Group, which brings together all the countries of Central and North America for regular dialogue on migration issues, including an annual session at the vice-ministerial level. The Puebla Group's Plan of Action calls for cooperation in exchanging information on migration policy, exploring links between development and migration, combating migrant trafficking, returning extra-regional migrants, and ensuring full respect for the human rights of migrants, as well as reintegrating repatriated migrants, equipping and modernizing immigration control systems, and training officials in migration policy and procedures. Discussions have led law enforcement officials of the United States, Mexico, and several Central American countries to cooperate in arresting and prosecuting members of large-scale smuggling and trafficking operations that move migrants illegally across borders and then force them to work in prostitution, sweatshops, and other exploitive activities.

Similar regional groups are working in East and Southeast Asia. The "Manila Process" focuses on unauthorized migration and trafficking in East and Southeast Asia. Since 1996, it has brought together each year 17 countries for regular exchange of information. The Asia-Pacific Consultations include governments in Asia and Oceania and focus on a broad range of population movements in the region. Both ongoing dialogues were strengthened by a 1999 International Symposium on Migration hosted by the Royal Thai government. In the resulting Bangkok Declaration on Irregular Migration, 19 Asian countries agreed to cooperate to combat smuggling and trafficking.

Other such groups are in the making in the Southern Cone of South America, in western and southern Africa, and in the Mediterranean. The intent is to bring together the governments of all countries involved in migration, whether origin, transit, or receiving. At present, the

groups are forums for exchanging information and perspectives, although the more developed ones, such as the Puebla Group, are leading to joint action as well. Given the lack of shared information or consensus about migration policies and practices, the discussion stage is a necessary first step in developing the capacity for joint efforts.

### Steps Toward a Global Regime

Will these regional processes lead to a global migration regime? It is too early to know. Three issues must first be addressed. First, states must reach a consensus that harmonizing policies will make migration more orderly, safe, and manageable. And in fact signs exist of growing convergence among regional groups in setting out an agenda for harmonization. Many items on regional agendas relate to unauthorized migration—and how best to deter it, consistent with respect for the rule of law and the human rights of migrants. Although source and destination countries may differ still about what causes unauthorized migration, agreement is growing on some approaches to it—for example, that curbing alien smuggling and trafficking (a global enterprise that nets an estimated \$7–10 billion a year) requires international cooperation.

Other issues arise in addressing forced migration. How, for example, should states protect people fleeing repression and conflict? When conflicts end and migrants no longer need protection, when and how should they be required to return? The growing use of temporary protection, as in the crises in Bosnia and Kosovo, has led European Union member states to place a high priority on harmonizing temporary protection policies and mechanisms for burden sharing. At the same time, the Puebla Group has focused on temporary protection of victims of natural disasters in the aftermath of Hurricane Mitch.

More recently, issues involving legal admissions have appeared on regional agendas. When and to whom should visa restrictions apply? Under what circumstances should family reunification be guaranteed? Who should be eligible for work and residence permits? What

rights should accrue to those legally admitted for work or family purposes? Answers to these questions will take time because states still differ widely in their attitudes and policies toward legal immigration. But signs of change can be seen even here. The European Union has led the way, with free movement of labor a long-held principle for its own nationals. The 1997 Amsterdam Treaty takes the EU the next step, mandating a common immigration policy for participating states.

Second, a global migration regime will require standards, policies, and new legal frameworks. A legal framework already exists for refugee movements, with most countries now signatories to the 1951 UN Convention on the Status of Refugees or its 1967 Protocol. Most important, signatories agree that they will not return (*refoule*) persons to countries where they have a well-founded fear of persecution. International agreements also apply to the rights of migrant workers, but few states ratified the 1990 UN Convention on the Protection of the Rights of All Migrant Workers and Members of Their Families, showing that they were unwilling to take on a comprehensive set of obligations toward migrant workers and their families. No body of international law or policy governs responses to other forms of international migration. But with growing economic integration, global trade agreements may become vehicles for formulating such policies. Ongoing negotiations on the General Agreement on Trade in Services involve new agreements—under the rubric of the “movement of natural persons”—to ease the admission of executives, managers, and professionals providing services.

The third issue to be settled before a global migration regime can come into being is organizational responsibilities. At the heart of the refugee regime is the UN High Commissioner for Refugees, whose mandate dates back to 1950. No comparable institution exists for other migration matters. The International Organization for Migration (IOM), a Geneva-based intergovernmental body, with 86 member states and 41 observer states, comes closest. Since its founding

in 1951 to help resettle refugees and displaced persons from World War II and the Cold War, IOM has taken on a broad set of responsibilities, including counter-trafficking programs, migrant health and medical services, technical assistance and capacity building, and assisted return programs. In particular, it serves as the secretariat for some of the regional processes discussing international migration. IOM is not a part of the UN system (although it cooperates with UN agencies), and it represents far fewer states. To become the focal point of a new migration regime, it would need substantial new resources and government support, particularly in helping governments formulate new global migration policies. Its governing board, composed of government representatives, has already requested and provided funds to IOM to strengthen its capacity to advise governments on best practices in migration management. Both source and destination countries recognize the need for improved responses, and IOM's broad membership helps it devise policies that balance varied governmental interests.

### A Multilateral Approach

In an increasingly interconnected world, governments are unlikely to be able to solve the many problems posed by international migration through unilateral approaches only. Source, receiving, and transit countries must all cooperate to manage international migration.

Reaching agreement will be relatively straightforward when countries share similar interests and problems—for example, in combating the most exploitive type of human trafficking. Often, however, interests will diverge. Source countries such as Mexico will press for easier access to the labor markets of wealthier countries. Receiving countries such as the United States will face public concerns about seemingly uncontrolled movements into their territories. Agreement will be difficult. Still, these issues will not go away just because different countries see them differently. Sheer necessity is likely to move governments toward a global migration regime. ■



# Can the Internet Promote Democracy? An Early Assessment



A

authoritarian) practices. The city-state of Singapore, rated as “most global” on the A.T. Kearny/*Foreign Policy* magazine Globalization Index in terms of cross-border contact between people, has remained resolutely semi-authoritarian for the past 30 years and shows few signs of greater democratization. Moreover, while entire regions, particularly in the former Eastern bloc, embraced economic globalization and more open political processes at the onset of the 1990s, by the end of the decade many new democracies were faltering under the weight of globalization, whether because of unfavorable economic trends or greater transnational crime. It may not yet be possible to make a final judgment about the connection between globalization and democracy, but a closer look will clarify where globalization has helped democratization, where it has inhibited movement toward greater openness, and, assuming an increased pace of globalization, what the greater flows of people and ideas will mean for the world’s governments and societies in the years ahead.

### **Toward International Norms of Democracy**

Perhaps the most tangible evidence of globalization’s impact on democratization has been the infusion of democratic norms, and the principles of human rights that support them, into many international and regional institutions. The principle of accountability for human rights abuse is increasingly unfettered by national borders, as the 1998 arrest of former Chilean President Augusto Pinochet in London demonstrated. The ad hoc United Nations war crimes tribunal that was convened for the former Yugoslavia in the early 1990s was extended to Rwanda in the middle of the decade, presaging a broader move toward international justice. In the coming decade, the establishment of an International Criminal Court will be a watershed in that move.

Democratic principles are also reshaping regional institutions. The European Union, originally an economic community, now requires democratic government as a precondition for

membership and promotes democracy in its collective foreign policy. The Organization of American States, once a diplomatic forum for both democratic and nondemocratic governments, now works actively to restore democracy when it is imperiled in member states. The Organization of African Unity, also a traditional diplomatic group, is attempting to forge a regional human rights code modeled after the Helsinki process in Europe.

But the process has its limits. Regional groups adopt codes of democratic practice where a quorum of democracies already exists or where the largest and most economically powerful states are democratic. In these cases, the weight of the democratic majority (and the benefits of membership in the club) are sometimes sufficient to help persuade nondemocratic states to liberalize. But the trend halts abruptly where the political spectrum includes an equal number of democratic and nondemocratic states or where authoritarian regimes are predominant. In Asia, for example, the diversity of political regimes has largely kept democracy and human rights off the table in the Asian-Pacific Economic Cooperation (APEC) group and the Association of Southeast Asian Nations (ASEAN).

A more encouraging but more low-level trend has been the growth of transnational nongovernmental organizations devoted to promoting democracy and protecting human rights. These groups, which usually originate and are headquartered in Western nations, establish beachheads (and nurture local counterparts) in authoritarian nations, although they are seldom able to operate there without significant restrictions. Thus, in regions where authoritarian trends remain strong—most notably in Asia and the Middle East—the only networks dedicated to spreading democratic values and strengthening human rights are nongovernmental. For the foreseeable future, the best chance of building intergovernmental democracy and human rights regimes in these regions will be in a gradual crossover process, as NGO networks pull government officials into “track two” (mixed

government and NGO) dialogues and other informal exercises.

### **The Instrumental Effects of Globalization**

In regions lacking a widespread and overt commitment to democracy, Western policymakers and nongovernmental groups trying to promote greater political liberalization have placed their faith in the indirect effects of globalization. In this view, globalization offers a bait and switch. An authoritarian government agrees to a global regime to gain benefits of one sort (usually economic) but is forced to accept the political consequences (greater popular pressure for democracy) that follow. Policies crafted in accord with this theory focus on two aspects of globalization—international trade liberalization and telecommunications. Not surprisingly, the theory also supports two cherished American beliefs: that open markets and democracy are the inspiration and consequence of one another and that the march of technology cannot be stopped.

Thus, for more than a decade successive U.S. administrations have claimed that broadly maintaining trade with China, and specifically encouraging China’s entry into the World Trade Organization, would provide a backdoor route to political reform. Adhering to WTO rules would require the regime in Beijing to provide more transparent and accountable government and would strengthen the concept of the rule of law, two fundamentals in modern democratic systems. In addition, foreign telecommunications companies would gain parity with government companies in China, spreading their technology and loosening the regime’s control over contact between China and the outside world, as well as among Chinese citizens themselves.

The logic, compelling in the long run, has short-term limits. In countries with enduring authoritarian regimes, leaders are more likely to accede to legal reform for pragmatic reasons—to improve economic conditions through increased international trade—so long as the reforms are not viewed by the populace as ideological capitulation. Leaders



may also consider reforms pertaining to international trade to be easier to contain, because the initial focus is on commercial codes that primarily affect foreign business. Although it is possible to cordon off domestic populations in the early stages of such reform, the consequences of trade liberalization and marketization eventually require the regime to adopt a broader approach. But economic liberalization can also exacerbate problems that seem to outpace legal reform efforts and even encourage popular support for authoritarian or semi-authoritarian government. Russia's entry into the international economy has, in the minds of many Russians, worsened official corruption and economic crime. As long as these trends are perceived to be stronger than (even impervious to) reform, citizens are likely to tolerate less than democratic rule as a short-term solution.

Moreover, some of the economic powers poised to enter international trade regimes, most notably China, could themselves affect the rules governing those regimes. Thus far, global trade rules have largely been written by Western democracies, whose combined economic power has placed aspiring entrants in the role of supplicants. But the entry of more "mixed" economic powers—governments committed to market reform but not necessarily to Western-style democracy—may change these institutions. At the least, the link between trade preferences and transparent processes may weaken slightly, as may support for overt political conditionality linked to trade, in the mode of the European Union. At worst, global trade institutions could be rent with bloc behavior, not unlike that sometimes seen in the United Nations.

### Technology and Political Openness

Technology's impact on democratization is likely to be more immediate, although not sufficient in itself to effect political change. Weak economies, along with government resistance, have contained the spread of technology in many Middle Eastern and some Asian states and will for the near future. But technology's advent has added a new dimen-

sion to the prospects for political change. The most dramatic episodes of popular resistance against authoritarian regimes in the past decade have featured prominent roles for technology. In Tiananmen Square in 1989, Chinese demonstrators communicated with one another and the outside world by fax. In Bangkok in 1992, Thai professionals, dubbed "mobile phone mobs," coordinated antimilitary demonstrations with student leaders and one another by cellular phone. In Indonesia in 1998, anti-Suharto resistance was largely directed via the Internet.

But for all these moments of high political drama, technology's greatest promise in promoting political openness lies in the everyday intercourse of civil and political life. In authoritarian societies, the Internet differs from print and electronic media, because no government-dominated media exist for the regime to use as a counterweight. From its inception, the Internet has been a freer form of communication than any other, at least for those able to obtain it.

Modernizing authoritarian states often wish to expand the use of technology for economic development but also to keep citizens from using it for political purposes. Doing both, however, is increasingly difficult. China's ambitious plan to build a national computerized information infrastructure has spurred domestic telecommunications industry growth of 30–50 percent a year since 1989. At the same time the government registers all Internet users, is investing in technology to monitor and filter cyber communications, and regulates acceptable topics for online discussion. But Chinese Internet users have learned how to circumvent many of these restrictions using proxy servers, a sign that technology can usually outma-

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neuver attempts to control it.

Today China's 17 million Internet users are a small fraction of the nation's population. But their number is increasing rapidly—growing 75 percent from 1997 to 1998 and then tripling in 1999. More important, political discourse in China has expanded despite state attempts to censor and prevent it. In the medium run, the effects of government efforts to control the Internet will depend in part on whether China can maintain brisk economic growth. If it does, Internet growth is likely to overwhelm attempts to control it. In the long run, the prognosis is favorable. In countries where technology is growing, control

of global media may alternate between government and society, but the advantage will usually go to society in the end.

### Downsides for Democracy

But globalization can also hand authoritarian regimes an edge. Regimes that accede to economic reforms most often allow openings they are confident they can control. If the immediate impact is favorable—an improved economy, greater access to modern technology and goods—the regime's popular legitimacy may be strengthened by the perception that it has delivered (or at least permitted) the improvements. Ironically, globalization can thus extend the longevity of the regime, at least in the short run.

Conversely, bad economic times that are attributed, correctly or not, to globalization can also give authoritarian leaders a boost. When disillusionment with economic reform sets in, Western policymakers' insistence on the link between reform and democratization can be used to authoritarian advantage. In the Asian economic crisis of 1997–98, Vietnam

and Laos, which had begun very modest political reforms to accompany marketization, jettisoned these political moves when their trade with the countries hit hardest by the crisis declined. The failure of some of the region's fastest-growing economies—those linked most closely to the West—was taken as a warning of the dangers of globalization. Hard-liners eclipsed reformers in the early post-crisis years or replaced them altogether in the political structure.

Globalization has also helped sustain authoritarian regimes by feeding nationalism in some non-Western states. During the Asian economic crisis, anti-Western sentiments flared even in countries well on the road to democracy, such as Thailand, when catastrophic drops in currency values were popularly attributed to manipulation by Western traders. In more authoritarian countries such as Malaysia, leaders turned this new nationalism to their advantage by salting their political platforms with anti-Western (and anti-globalization) rhetoric and portraying themselves as national champions.

Technology too has fed the nationalist backlash against globalization. Democracy promoters have long heralded the "CNN effect," in which television brings world events into the living rooms of people whose leaders would prefer to block such coverage. In Thailand in 1992, when the military government banned reports of Bangkok street demonstrations on government-owned television stations, coverage of the events (and the military crackdown on demonstrators) was transmitted to citizens through satellite television, creating a galvanizing force for resistance. In recent years, authoritarian regimes have used television to their own

advantage. In 1999, satellite TV brought NATO's bombing of the Chinese embassy in Belgrade into the homes of urban Chinese, who were quick to respond with public protests. During that same incident nationalists also made use of the Internet. At the height of the protests, Chinese hackers broke into the website of the U.S. embassy in Beijing, in an eerie modern-day parallel to the 1900 Boxer Rebellion.

### New "Global" Elites?

Perhaps the most important impact of globalization on political reform, and one of the most difficult to foretell, will be the way it shapes new political and social classes, particularly in authoritarian countries. In recent decades social scientists have theorized that globalization—in particular its ability to improve economic conditions through trade—will help create new middle classes that will, in turn, increase pressure for democratic reform. There is some truth

to this generalization, but it downplays the role of elites in political change. However strong popular pressure for democracy might be, a democratic transition usually requires the approval, overt or tacit, of a significant segment of the ruling order. The key question is not whether globalization can help serve up larger street crowds demanding change, but whether it can change the very nature of elite groups.

Signs are emerging that globalization may be doing just that, with mixed effects for democratization. In countries (whether authoritarian or democratic) that emphasize modernization and economic growth based in part on foreign trade and investment, two developments are reshaping elite political culture. The first is the rise of

technocrats, particularly those trained in global economics, in government and politics. In China, for example, technocrats are gradually assuming greater responsibility in the bureaucratic structure. The Communist Party of China has even begun to recruit them to enhance its own legitimacy. Technocrats are not, of course, automatically democratic reformers, but their influence can help make government more accountable and transparent, helping to lay the groundwork for a more democratic system.

A more noteworthy trend is the rise of new commercial elites in the power structures of many authoritarian and democratizing societies. Many made their fortunes in modern commercial sectors that benefited greatly from globalization. Seeking influence wherever they can find it, these new elites often pack the parliaments in countries where the executive branch had traditionally enjoyed exclusive control. In applying new communications techniques (and portions of their fortunes) to connect with voters, they have inspired a modern push for grassroots politics. Although generally considered reformers, they may also epitomize globalization's lack of regulation. As these new elites have assumed power, indictments for political corruption have increased.

### A Realistic Appraisal

Clearly, globalization is not a political panacea. At best a long-term ally in promoting democracy, it provides no automatic solutions. The sanguine correlations offered by some policymakers in the early post-Cold War years—particularly regarding the link between increased trade and democratization—should be reexamined. Although the advanced democracies can prime the pump of globalization, they should not expect to control the outcome or to realize immediate results. Indeed, the more enduring aspects of globalization may take at least a generation to realize. Until then, policymakers should be as ready to recognize globalization's costs to democratization as they are to laud its benefits. ■

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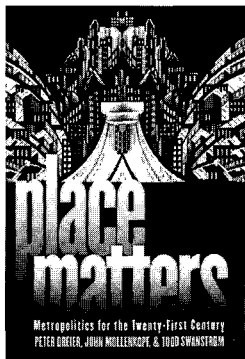
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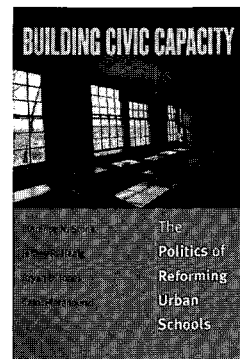
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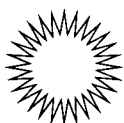
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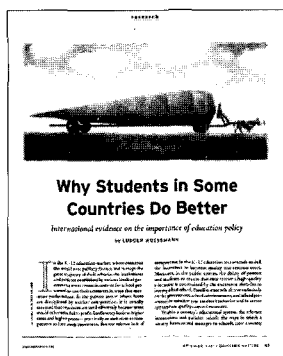


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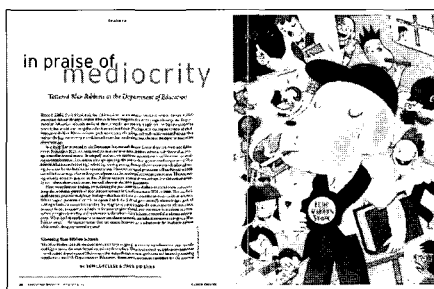
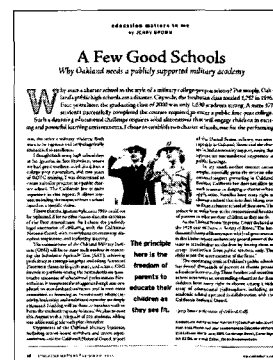
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